



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



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.

“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.'”

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2019

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-38021

HAMILTON LANE INCORPORATED

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

26-2482738
(I.R.S. Employer
Identification No.)

One Presidential Blvd., 4th Floor
Bala Cynwyd, PA
(Address of principal executive offices)

19004
(Zip Code)

Registrant's telephone number, including area code: **(610) 934-2222**

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock, \$0.001 par value per share	HLNE	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of Class A common stock held by non-affiliates of the registrant on September 28, 2018, based on the closing price of \$44.28 for shares of the registrant's Class A common stock as reported by the Nasdaq Stock Market, was approximately \$1,005.9 million.

As of May 28, 2019, there were 27,360,570 shares of the registrant's Class A common stock and 23,516,439 shares of the registrant's Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference information from the registrant's definitive proxy statement related to the 2019 annual meeting of stockholders.

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Table of Contents

	<u>Page</u>
PART I	
Item 1. Business	3
Item 1A. Risk Factors	29
Item 1B. Unresolved Staff Comments	60
Item 2. Properties	60
Item 3. Legal Proceedings	61
Item 4. Mine Safety Disclosures	61
PART II	
Item 5. Market for Registrants' Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	62
Item 6. Selected Financial Data	63
Item 7. Management's Discussion and Analysis of Financial Condition	66
Item 7A. Qualitative and Quantitative Disclosures about Market Risk	90
Item 8. Consolidated Financial Statements and Supplementary Data	92
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	132
Item 9A. Controls and Procedures	132
Item 9B. Other Information	133
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	134
Item 11. Executive Compensation	134
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	134
Item 13. Certain Relationships and Related Transactions, and Director Independence	134
Item 14. Principal Accountant Fees and Services	134
PART IV	
Item 15. Exhibits and Financial Statement Schedules	135
Item 16. Form 10-K Summary	135
Signatures	139

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This Annual Report on Form 10-K (“Form 10-K”) includes certain information regarding the historical performance of our specialized funds and customized separate accounts. An investment in shares of our Class A common stock is not an investment in our specialized funds or customized separate accounts. In considering the performance information relating to our specialized funds and customized separate accounts contained herein, prospective Class A common stockholders should bear in mind that the performance of our specialized funds and customized separate accounts is not indicative of the possible performance of shares of our Class A common stock and is also not necessarily indicative of the future results of our specialized funds or customized separate accounts, even if fund investments were in fact liquidated on the dates indicated, and there can be no assurance that our specialized funds or customized separate accounts will continue to achieve, or that future specialized funds and customized separate accounts will achieve, comparable results.

We own or have rights to trademarks, service marks or trade names that we use in connection with the operation of our business. In addition, our names, logos and website names and addresses are owned by us or licensed by us. We also own or have the rights to copyrights that protect the content of our solutions. Solely for convenience, the trademarks, service marks, trade names and copyrights referred to in this Form 10-K are listed without the ©, ® and ™ symbols, but we will assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensors to these trademarks, service marks, trade names and copyrights.

This Form 10-K may include trademarks, service marks or trade names of other companies. Our use or display of other parties’ trademarks, service marks, trade names or products is not intended to, and does not imply a relationship with, or endorsement or sponsorship of us by, the trademark, service mark or trade name owners.

Unless otherwise indicated, information contained in this Form 10-K concerning our industry and the markets in which we operate is based on information from independent industry and research organizations, other third-party sources (including industry publications, surveys and forecasts), and management estimates. Management estimates are derived from publicly available information released by independent industry analysts and third-party sources, as well as data from our internal research, and are based on assumptions made by us upon reviewing such data and our knowledge of such industry and markets that we believe to be reasonable. Although we believe the data from these third-party sources is reliable, we have not independently verified any third-party information.

Unless otherwise indicated or the context otherwise requires, all references in this Form 10-K to “we,” “us,” “our,” the “Company,” “Hamilton Lane” and similar terms refer to Hamilton Lane Incorporated and its consolidated subsidiaries. As used in this Form 10-K, (i) the term “HLA” refers to Hamilton Lane Advisors, L.L.C. and (ii) the terms “Hamilton Lane Incorporated” and “HLI” refer solely to Hamilton Lane Incorporated, a Delaware corporation, and not to any of its subsidiaries.

Cautionary Note Regarding Forward-Looking Information

Some of the statements in this Form 10-K may constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995. Words such as “will,” “expect,” “believe,” “estimate,” “continue,” “anticipate,” “intend,” “plan” and similar expressions are intended to identify these forward-looking statements. Forward-looking statements discuss management’s current expectations and projections relating to our financial position, results of operations, plans, objectives, future performance and business. All forward-looking statements are subject to known and unknown risks, uncertainties and other important factors that may cause actual results to be materially different, including risks relating to our ability to manage growth, fund performance, risk, changes in our regulatory environment and tax status; market conditions generally; our ability to access suitable investment opportunities for our clients; our ability to maintain our fee structure; our ability to attract and retain key employees; our ability to manage our obligations under our debt agreements; defaults by clients and third-party investors on their obligations to us; our ability to comply with investment guidelines set by our clients; and our ability to receive distributions from HLA to fund our payment of dividends, taxes and other expenses.

The foregoing list of factors is not exhaustive. For more information regarding these risks and uncertainties as well as additional risks that we face, you should refer to Part I, Item 1A of this Form 10-K under the heading “Risk Factors” and in our subsequent reports filed from time to time with the Securities and Exchange Commission (the “SEC”). The forward-looking statements included in this Form 10-K are made only as of the date we filed this report. We undertake no obligation to update or revise any forward-looking statement as a result of new information or future events, except as otherwise required by law.

PART I

Item 1. Business

Our Company

We are a global private markets investment solutions provider with approximately \$61 billion of assets under management (“AUM”), and approximately \$422 billion of assets under advisement (“AUA”). We work with our clients to conceive, structure, build out, manage and monitor portfolios of private markets funds and direct investments, and we help them access a diversified set of such investment opportunities worldwide. Our clients are principally large, sophisticated, global investors that rely on our private markets expertise, deep industry relationships, differentiated investment access, risk management capabilities, proprietary data advantages and analytical tools to navigate the increasing complexity and opacity of private markets investing. While some maintain their own internal investment teams, our clients look to us for additional expertise, advice and outsourcing capabilities. We were founded in 1991 and have been dedicated to private markets investing for almost three decades. We currently have approximately 370 employees, including 115 investment professionals, operating throughout the United States and in London, Hong Kong, Munich, Rio de Janeiro, Seoul, Sydney, Tel Aviv, Tokyo and Toronto. A significant majority of our employees have equity interests in our Company.

We offer a variety of investment solutions to address our clients’ needs across a range of private markets, including private equity, private credit, real estate, infrastructure, natural resources, growth equity and venture capital. These solutions are constructed from a range of investment types, including primary investments in funds managed by third-party managers, direct/co-investments alongside such funds and acquisitions of secondary stakes in such funds, with a number of our clients utilizing multiple investment types. These solutions are offered in a variety of formats covering some or all phases of private markets investment programs:

- *Customized Separate Accounts:* We design and build customized portfolios of private markets funds and direct investments to meet our clients’ specific portfolio objectives with regard to return, risk tolerance, diversification and liquidity. We generally have discretionary investment authority over our customized separate accounts, which comprised approximately \$50 billion of our AUM as of March 31, 2019.
- *Specialized Funds:* We organize, invest and manage specialized primary, secondary and direct/co-investment funds. Our specialized funds invest across a variety of private markets and include equity, equity-linked and credit funds offered on standard terms as well as shorter duration, opportunistically oriented funds. We launched our first specialized fund in 1997, and our product offerings have grown steadily, comprising approximately \$11 billion of our AUM as of March 31, 2019.
- *Advisory Services:* We offer investment advisory services to assist clients in developing and implementing their private markets investment programs. Our investment advisory services include asset allocation, strategic plan creation, development of investment policies and guidelines, the screening and recommending of investments, legal negotiations, the monitoring of and reporting on investments and investment manager review and due diligence. Our advisory clients include some of the largest and most sophisticated private markets investors in the world. We had approximately \$422 billion of AUA as of March 31, 2019.

- *Distribution Management:* We offer distribution management services to our clients through active portfolio management to enhance the realized value of publicly traded stock they receive as distributions from private equity funds.
- *Reporting, Monitoring, Data and Analytics:* We provide our clients with comprehensive reporting and investment monitoring services, usually bundled into our broader investment solutions offerings, but occasionally on a stand-alone, fee-for-service basis. Private markets investments are unusually difficult to monitor, report on and administer, and our clients are able to benefit from our sophisticated infrastructure, which provides real-time access to reliable and transparent investment data, and our high-touch service approach, which allows for timely and informed responses to the multiplicity of issues that can arise. We also provide comprehensive research and analytical services as part of our investment solutions, leveraging our large, global, proprietary and high-quality database of private markets investment performance and our suite of proprietary analytical investment tools.

Our client and investor base included over 450 institutions and intermediaries as of March 31, 2019, and is broadly diversified by type, size and geography. Our client base primarily comprises institutional investors that range from those seeking to make an initial investment in alternative assets to some of the world's largest and most sophisticated private markets investors. As a highly customized, flexible outsourcing partner, we are equipped to provide investment services to institutional clients of all sizes and with different needs, internal resources and investment objectives. Our clients include prominent institutional investors in the United States, Europe, the Middle East, Asia, Australia and Latin America. We provide private markets solutions and services to some of the largest global pension, sovereign wealth, and U.S. state pension funds. In addition, we believe we are a leading provider of private markets solutions for U.S. labor union pension plans, and we serve numerous smaller public and corporate pension plans, sovereign wealth funds, financial institutions and insurance companies, endowments and foundations, as well as family offices and selected high-net-worth individuals.

Our intermediary clients enable us to provide our investment products to an expanded range of high-net-worth individuals and families. We have a diversified revenue stream from a variety of client types in multiple geographic regions, with no single client representing more than 5% of management and advisory fee revenues. For the year ended March 31, 2019, our top 10 clients generated approximately 23% of management and advisory fee revenues, and our top 20 clients generated approximately 34% of management and advisory fee revenues with all of our top 20 clients having multiple allocations, products or services with us. A significant portion of our revenue base is recurring and is based on the long-term nature of our specialized funds and customized separate accounts as well as long-term relationships with many of our clients, providing highly predictable cash flows.

Since our inception, we have experienced consistent, strong growth, which continues to be reflected in our more recent AUM and AUA growth. As of March 31, 2019, we had AUM of approximately \$61 billion, reflecting a 17% compound annual growth rate ("CAGR") from March 31, 2015, and our AUM increased in each fiscal year during this timeframe. We had approximately \$422 billion of AUA as of March 31, 2019, reflecting a 22% CAGR from March 31, 2015, and our AUA increased in each fiscal year during this timeframe.

Finally, we believe that our strong culture is a key factor driving our success in developing and maintaining high quality relationships with clients, prospects, other business partners and current/potential employees. We are proud that this culture has been recognized by several prominent trade organizations and publications through numerous awards. For example, we were one of a select group of companies named as a "Best Place to Work in Money Management" in 2018 by Pensions & Investments.

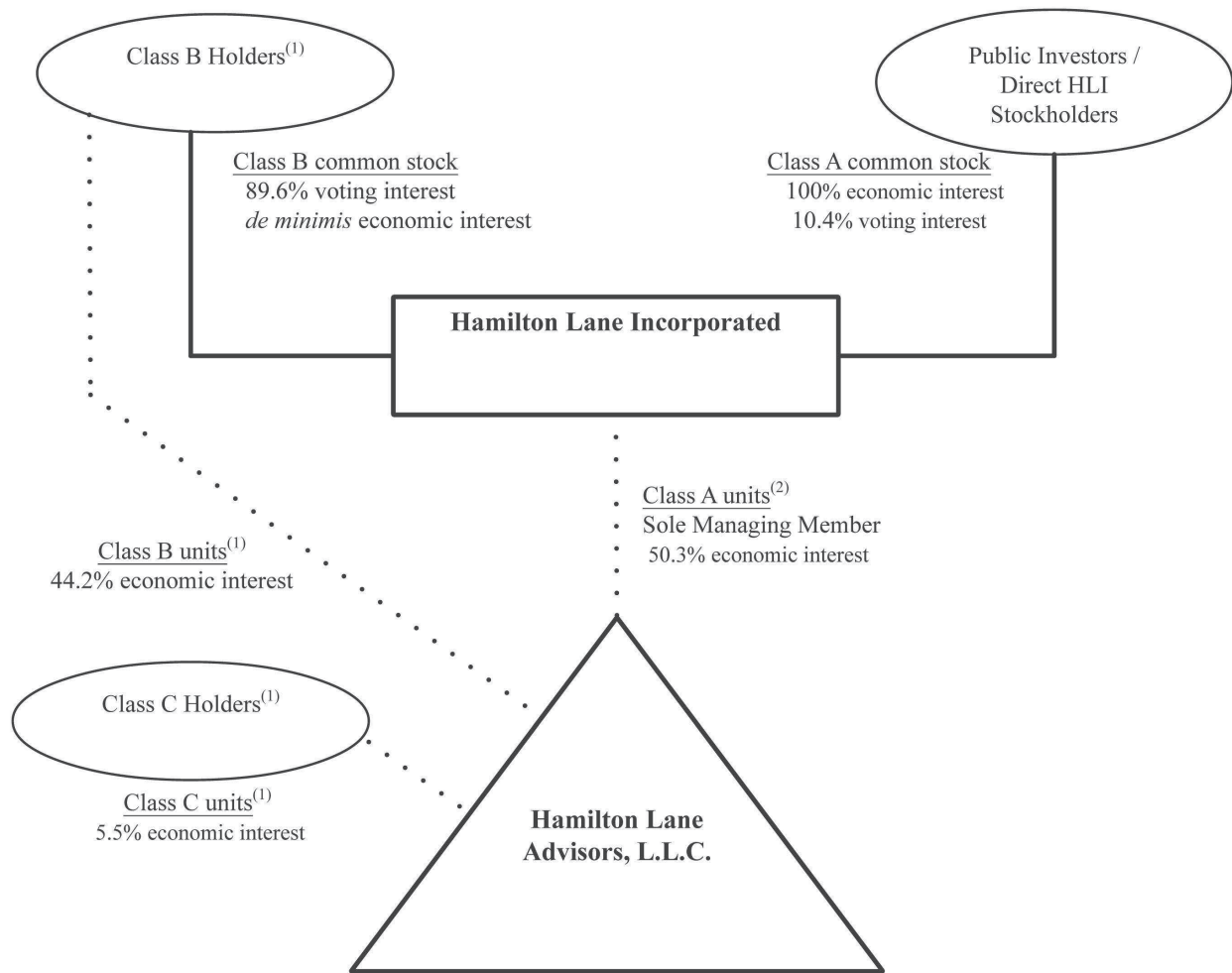
Our firm is the only firm in the “Alternatives Manager” category that has appeared on this list every year since Pensions & Investments initiated this category in 2012. Additionally, the firm has received accolades from publications and organizations including Inc. (Hire Power Award: 2013; Fastest-Growing Private Companies in America: 2012 and 2017), Best Companies Group (Best Places to Work in PA: 2012-18) and the Philadelphia Business Journal (Advancing Women Company Award: 2014). Additionally, the strong representation of women in our workforce led the Forum of Executive Women to recognize us as a Top Global Company for the Professional Advancement of Women in 2014. As of March 31, 2019, approximately 39% of our employees were women, including over 28% of employees serving in senior roles. We believe that our culture will continue to play an important role in supporting our future growth.

Organizational Structure

Initial Public Offering and Reorganization

HLI was incorporated in the State of Delaware on December 31, 2007 and conducted its initial public offering (“IPO”) in March 2017. HLI is a holding company with no direct operations. Its principal asset is an equity interest in HLA. It serves as the managing member of HLA and operates and controls all of HLA’s business and affairs.

In connection with the IPO, we completed a series of transactions in order to effect a corporate reorganization, which we refer to collectively throughout this Form 10-K as the “Reorganization”. As part of the Reorganization, we changed our structure to what is commonly referred to as an “Up-C” structure, which provides our pre-IPO owners with the tax advantage of continuing to own interests in a pass-through structure and provides potential future tax benefits for both the public company and the legacy owners (through the tax receivable agreement) when they ultimately exchange their pass-through interests for shares of Class A common stock. HLI has dual-class common stock, the rights of which are described in more detail below. The below chart summarizes our organizational structure as of March 31, 2019.



-
- (1) The Class B Holders, who hold Class B units, and Class C Holders, who hold Class C units, are pre-IPO owners of our business who continue to hold their interests directly in HLA. Class B units and Class C units may be exchanged on a one-for-one basis for shares of Class A common stock or, at our election, for cash, pursuant to and subject to the restrictions set forth in the exchange agreement.
 - (2) We hold all of the Class A units of HLA, representing the right to receive approximately 50.3% of the distributions made by HLA. We act as the sole manager of HLA and operate and control all of its business and affairs.

Class A and Class B Common Stock

Our Class A common stock is our publicly traded stock and is listed on the Nasdaq Stock Market (“Nasdaq”) under the symbol “HLNE”. Our Class B common stock was issued as part of the Reorganization to the holders of our Class B units, who are certain significant outside investors, members of management and significant employee owners. There is no trading market for our Class B common stock.

Economic Rights

Holders of Class A common stock are entitled to full economic rights, including the right to receive dividends when and if declared by our board of directors, subject to any statutory or contractual restrictions on the payment of dividends and to any restrictions on the payment of dividends imposed by the terms of any outstanding preferred stock.

Holders of Class B common stock are entitled to receive only the par value of the Class B common stock upon exchange of the corresponding Class B unit pursuant to the exchange agreement. The exchange of a Class B unit will result in the redemption and cancellation of the corresponding share of Class B common stock.

Voting Rights

Except as provided in our certificate of incorporation or by applicable law, holders of Class A common stock and Class B common stock vote together as a single class. Our Class A common stock entitles the holder to one vote per share. Our Class B common stock entitles the holder to ten votes per share until a Sunset becomes effective. After a Sunset becomes effective, each share of Class B common stock will then entitle the holder to one vote.

A “Sunset” is triggered by any of the following: (i) Hartley R. Rogers, Mario L. Giannini and their respective permitted transferees collectively cease to maintain direct or indirect beneficial ownership of at least 10% of the outstanding shares of Class A common stock (determined assuming all outstanding Class B units and Class C units have been exchanged for Class A common stock); (ii) Mr. Rogers, Mr. Giannini, their respective permitted transferees and employees of us and our subsidiaries cease collectively to maintain direct or indirect beneficial ownership of an aggregate of at least 25% of the aggregate voting power of our outstanding Class A common stock and Class B common stock; (iii) Mr. Rogers and Mr. Giannini both voluntarily terminate their employment and all directorships with HLA and us (other than by reason of death or, as determined in good faith by our board of directors, disability, incapacity or retirement); or (iv) the occurrence of the later of March 31, 2027 or the end of the fiscal year in which occurs the fifth anniversary of the death of the second to die of Mr. Rogers and Mr. Giannini. A Sunset triggered under clauses (i), (ii) and (iii) during the first two fiscal quarters will generally become effective at the end of that fiscal year, and a Sunset triggered under clauses (i), (ii) and (iii) during the third or fourth fiscal quarters will generally become effective at the end of the following fiscal year. A Sunset pursuant to clause (iv) will become effective on the occurrence of the latest event listed in clause (iv), unless a Sunset is also triggered under clause (i) or (ii) that would result in an earlier Sunset, in which case the earlier Sunset will result.

If Mr. Rogers or Mr. Giannini voluntarily terminates his employment and directorships as contemplated by clause (iii) after the death of the other, then the Sunset will become effective on the timing set out in clause (iii). Otherwise, a voluntary termination as to only one of them will result in a Sunset becoming effective on the timing set out in clause (iv). Because a Sunset may not take place for some time, or at all, certain of the Class B Holders will, by virtue of their voting control of us and the stockholders agreement described below, continue to control us for the near future.

Our Class B common stockholders collectively hold 89.6% of the combined voting power of our common stock. Certain of the holders of our Class B common stock who are significant outside investors, members of management and significant employee owners have, pursuant to a stockholders agreement, agreed to vote all of their shares in accordance with the instructions of HLAI, our controlling stockholder. The parties to the stockholders agreement control almost 90% of the combined voting power of our common stock. This group is therefore able to exercise control over all matters requiring the approval of our stockholders, including the election of our directors and the approval of significant corporate transactions.

When a Class B Holder exchanges Class B units pursuant to the exchange agreement, it will result in the redemption and cancellation of the corresponding number of shares of our Class B common stock in

exchange for a cash payment of the par value of such shares and, therefore, will decrease the aggregate voting power of our Class B Holders.

Business Strategy

The alternative investment industry has experienced significant and consistent growth, which we expect to continue and contribute to our future growth. Given our leading market position and strong reputation in investing and client service, our objective is to continue to leverage the following strategic advantages to exceed the industry growth rate.

Develop innovative private markets solutions. Many of our clients engage us because of our ability to create customized programs that meet their particular investment needs and provide access to a broad spectrum of private markets investment opportunities. We believe that a broad range of solutions across almost every private markets asset class enables us to remain a leader in structuring private markets investment portfolios and to continue to provide the best solutions for our existing and future clients. We intend to continue to meet our clients' demands for alternative investments via primary, secondary and direct/co-investment opportunities, which provide attractive return characteristics, as well as innovative specialized fund products, while at the same time allowing us to benefit from economies of scale. In addition, we intend to expand into adjacent asset classes, which will allow us to further broaden our solutions capabilities, diversify our business mix and allow us to benefit from growth in private markets asset classes, such as private debt.

Expand distribution channels. We continue to build a scalable, cost-effective global institutional sales organization, which provides us with a strong local presence in several markets. Our sales organization comprises our business development and product groups which are both dedicated to marketing our services and products globally. In addition, we intend to increase our profile with influential intermediaries that advise individual and institutional clients, particularly small and medium-sized institutions and high-net-worth families and family offices. We may also enter into strategic distribution partnerships with financial institutions in certain geographical regions and market sectors to gain access to their captive client bases. As we continue to explore different ways to access alternative distribution channels, we are also acting as "sub-advisor" for financial intermediaries with significant distribution strength. In this role, we perform a range of investment services from portfolio construction to investment management, while the distribution partner focuses on product distribution and client service. In the context of these partnerships, the distribution partner often aims to provide its clients with products under its own brand, which we achieve by rebranding our existing offerings or by creating customized offerings carrying the distribution partner's name. We anticipate increasing sub-advisory opportunities as we continue to target high-net-worth individuals and families.

Diversify and grow client base. We aim to continue to expand our relationships with existing clients and intend to capitalize on significant opportunities in new client segments globally, such as smaller institutions and high-net-worth investors. We believe these investors offer an attractive opportunity to further diversify and grow our client base because many of them only recently have begun to invest in, or increase their allocations to, alternative investments.

Expand private markets solutions and products to defined contribution, retail and similar pools of investable assets. We believe we are pioneers in the creation, distribution, and management of products such as specialized secondaries, direct/co-investments and specialty credit strategies that are designed to serve defined contribution retirement plans and similar entities. Many of our defined contribution retirement plan clients are based outside of the United States, ranging across Australia, Europe, and Latin America, among other geographies. While these clients tend to have lower private markets allocations than those of defined benefit pension plans, their comfort with, interest in and allocations to private

markets alternative investments have tended to increase over time, due in part to significant advancements in the areas of private markets data and benchmarking, where we believe we play a leading role. Therefore, we intend to continue to develop, market and manage investment solutions and products specifically aimed at helping these investors create appropriately structured private markets alternatives programs.

Expand globally. Over the past 17 years, we have substantially grown our global presence, both in terms of clients and investments, by expanding our international offices as well as our client presence. We have built a significant presence to serve clients in Europe, Latin America, the Middle East, Asia, Australia and Canada, and we have offices in London, Munich, Rio de Janeiro, Tel Aviv, Hong Kong, Seoul, Tokyo, Sydney and Toronto. In each of these places, we serve major institutional clients, and we review and commit capital to established local private markets funds on behalf of our clients. Our aim is to continue expanding our global presence through further direct investment in personnel, development of client relationships and increased investments with, and direct and co-investments alongside, established private markets fund managers.

We believe that many institutional investors outside the United States are currently underinvested in private markets asset classes and that capturing capital inflows into private capital investing from non-U.S. global markets represents a significant growth opportunity for us. We think that investors from developing regions will increasingly seek branded multi-capability alternative investment managers with which to invest. We believe that geographically and economically diverse non-U.S. investors will require a highly bespoke approach and will demand high levels of transparency, governance and reporting. We have seen this pattern developing in many places, including Europe, the Middle East, Latin America, Australasia, Japan, South Korea, Southeast Asia and China, and have positioned ourselves to take advantage of it by establishing local presences with global investment capabilities.

We believe we are uniquely capable of pursuing the opportunities arising from increased allocations among institutional investors and the rapid wealth creation globally among high-net-worth individuals because of our strong brand recognition, multi-office resources, experienced team of investment professionals and comprehensive suite of products and services.

Leverage proprietary databases and analytics to enhance our existing service offerings and develop new products and services. When compared to more liquid investment areas, the private markets industry is characterized by the limited availability and inconsistency of quality information. We believe that the general trend toward transparency and consistency in private markets reporting will create new opportunities for us. We intend to use the advantages afforded to us by our proprietary databases, analytical tools and deep industry knowledge to drive our performance and provide our clients with customized solutions across private markets asset classes. We expect that our data and analytical capabilities will play an important role in continuing to differentiate our products and services from those of our competitors.

In addition to continually expanding our own database, we develop strategic partnerships with, and opportunistically seek minority stakes in, innovative solutions providers such as Private Market Connect (data collection and management), Black Mountain (allocation software) and Bison Cobalt (benchmarking and diligence).

Investment Types

We provide our clients access to private markets investment opportunities diversified across financing stages, geographic regions and industries through the investment types described below.

- *Primary Investments.* Primary investments are investments in private markets funds at the time the funds are initially launched. At the time we commit capital to a fund on behalf of our specialized funds or customized separate accounts, the investments that the fund will make are generally not known and investors typically have very little or no ability to influence the investments that are made during the fund's investment period. Primary funds usually have a contractual duration of between 10 and 15 years, with the capital deployed over a period of typically four to six years. For advisory and customized separate account clients, our investment recommendations and decisions are designed to achieve specific portfolio construction and return objectives mutually developed by us and the clients. Subject to specific client investment guidelines, we rarely invest in "first time" funds unless the management team has previously worked successfully together and built a credible and impressive track record.
- *Secondary Investments.* Secondary investments are investments in private markets funds through secondary market purchases of existing fund interests from existing limited partners in those funds. The private secondary market is a non-regulated private market in which buyers and sellers directly negotiate the terms of transactions. The secondary market has grown dramatically in the last 20 years and today provides a reliable liquidity option for owners of private markets interests as well as attractive buying opportunities for secondary investors. Institutional investors utilize the secondary market for strategic portfolio rebalancing, rationalizing overlapping positions resulting from mergers and acquisitions or providing liquidity when facing cash constraints.

Secondary transactions typically fall within the following categories:

- *Single Funds:* These transactions are often too small for the larger secondary funds and brokers and can be accessed through proprietary or less competitive sourcing methods.
- *Subset Portfolios:* In these transactions, we typically target a multi-fund portfolio with limited information and/or transfer restrictions.
- *Structured/Direct Transactions:* These transactions typically involve the direct purchase of companies alongside an existing or new manager, including fund manager spin-outs and fund manager restructurings.
- *Direct/co-investments.* Direct/co-investments are direct investments alongside private markets funds in underlying portfolio companies. Our direct/co-investment strategy starts with actively soliciting the managers of private markets funds in which we have made investments to offer our specialized funds and customized separate accounts all direct/co-investment opportunities that may arise from their investment operations.

The investment team analyzes and considers each deal to select those opportunities that best suit the direct/co-investment funds' investment objectives and create an appropriate diversity of investment type, industry, geography and manager. We generally make direct/co-investments on a parallel basis with the private markets funds and managers leading the investments, by purchasing similar securities on similar terms with exit provisions that allow the direct/co-investment funds through which we invest to realize their investments at the same time and on a pro rata basis.

- *Strategic Opportunities Funds:* Our Strategic Opportunities funds are short duration, private markets funds that seek to create a portfolio of opportunistically oriented, private markets

investments that generate attractive risk-adjusted returns through a flexible and diversified investment strategy. The funds seek to invest across the entire capital structure and primarily utilize credit direct/co-investments, as well as tail-end secondary investments, to create a portfolio biased toward shorter-duration exposures and downside protection, including a current yield component. The Strategic Opportunities funds also may seek to layer into the portfolio construction opportunistic investments, including unique equity positions and investments in areas of market dislocation. These funds leverage our existing platform to generate additional attractive deal flow.

Investment Process and Monitoring

Our investment team is divided into five dedicated teams for primary investments, secondary investments, direct/co-investments, real assets and research. Primary investments, secondary, direct/co-investments and real assets have their own discrete investment committees, although there is significant overlap among committee members.

Our investment process has six key steps: investment origination; preliminary screening; due diligence evaluation; financial analysis; investment evaluation and decision-making; and negotiation, documentation and closing. Each step is described below:

- *Investment Origination.* Fund managers raising new funds and seeking institutional investors typically market their funds directly to us. For secondary investments and direct/co-investments, we aggressively pursue attractive opportunities through our network of fund manager relationships, consultants and, to a lesser extent, third-party distributors.
- *Preliminary Screening.* For primary fund investment opportunities, including real estate, the screening process consists of a formal review of any private placement memorandum that we receive from a prospective fund manager. A screening memo is prepared by the fund investment team and the investment committee makes a decision whether to proceed to due diligence or decline the investment opportunity. For secondary and direct/co-investment opportunities, each investment is evaluated by the respective investment teams and the most attractive opportunities are reviewed in a formal screening process by the investment committee.
- *Due Diligence Evaluation.* For primary fund investments that proceed past the initial screening process, we meet in person with the fund manager. A meeting memo prepared by the investment team based on the meeting is presented to the investment committee for a formal vote. If we elect to move forward, we issue a detailed questionnaire to the fund manager. We subsequently conduct a site visit at the fund manager's office. Lastly, we prepare a final investment report, which provides details on the manager's performance, merits and issues, as well as in-depth analysis of the portfolio.

Among the direct/co-investment opportunities we review, only the most attractive move to more intensive due diligence. The initial due diligence may include meeting and interviewing management and company personnel, multiple meetings and discussions with the lead sponsor, review of materials and reports developed by the private markets fund manager and external consultants to evaluate the investment and engaging additional advisors when appropriate. In addition, we conduct industry and competitive analyses and a risk analysis on the opportunity.

- *Financial Analysis.* All investment opportunities that pass the initial due diligence review undergo a quantitative, rigorous financial and valuation review. For primary investments, financial

analysis includes a thorough review of the fund manager's historical track record, in which we seek to identify the drivers of return.

Our secondary investment analysis involves both a bottom-up and a top-down analysis of each potential investment. The bottom-up analysis calculates individual values for each underlying portfolio company within the fund. The top-down analysis focuses on assessment of the markets, both public and private, as well as a rigorous review of the fund manager. This review includes historical returns, average holding periods, investment style and risk profile. These two separate analyses are then combined and weighted in order to calculate an offering price for the portfolio.

For direct/co-investments, the company financial projections are studied, as well as the prospective capital structure and credit risk, and sensitivity analyses of the direct/co-investment's projected returns.

- *Investment Evaluation and Decision-Making.* Throughout the due diligence process, the investment team meets periodically with members of the investment committee in an iterative, dynamic “give and take” process leading to the investment decision stage.

For primary investments, the investment committee votes on each opportunity three times before it is formally approved: (i) at the screening stage; (ii) after the initial meeting; and (iii) when the final due diligence report is completed. At each stage, the investment team prepares a memorandum to the committee summarizing the diligence efforts to that point. The investment is then discussed formally by the investment team and the investment committee members to determine if it is attractive enough to move forward or, in the last stage, make an investment.

For secondary investments and direct/co-investments, the investment committee processes are more iterative. Opportunities are reviewed in investment committee meetings, and the discussion among the investment teams and the committee guides the diligence process. As the diligence process progresses, the investment committee makes the decision of whether to continue working on the transaction or to decline. At the final decision stage, a formal vote is required from the investment committee to make an investment.

- *Negotiation, Documentation and Closing.* Upon recommendation of an investment, we attend to all aspects of the negotiation, documentation and closing processes. Our in-house legal team is mobilized to review the transaction documents, including, in the case of direct/co-investments, the governing documents of the direct/co-investment vehicle and stockholders or comparable agreement setting forth the rights of the direct/co-investors. Throughout the documentation and closing process, the investment team and the legal team work closely together to maximize economic terms and legal rights and protections for our clients and our specialized funds.

Investment Performance

The following tables present information relating to the historical performance of our discretionary investment accounts. The data for these investments is presented from the date indicated through December 31, 2018 and have not been adjusted to reflect acquisitions or disposals of investments subsequent to that date.

When considering the data presented below, you should note that the historical results of our discretionary investments are not indicative of the future results you should expect from such investments, from any future investment funds we may raise or from an investment in our Class A common stock, in part because:

- market conditions and investment opportunities during previous periods may have been significantly more favorable for generating positive performance than those we may experience in the future;
- the performance of our funds is generally calculated on the basis of the net asset value (“NAV”) of the funds’ investments, including unrealized gains, which may never be realized;
- our historical returns derive largely from the performance of our earlier funds, whereas future fund returns will depend increasingly on the performance of our newer funds or funds not yet formed;
- our newly established funds may generate lower returns during the period that they initially deploy their capital;
- in recent years, there has been increased competition for investment opportunities resulting from the increased amount of capital invested in private markets alternatives and high liquidity in debt markets, and the increased competition for investments may reduce our returns in the future; and
- the performance of particular funds also will be affected by risks of the industries and businesses in which they invest.

The historical and potential future returns of the investment funds we manage are not directly linked to returns on our Class A common stock. Therefore, you should not conclude that continued positive performance of the investment funds we manage will necessarily result in positive returns on an investment in our Class A common stock. As used in this discussion, internal rate of return (“IRR”) is calculated on a pooled basis using daily cash flows. Gross IRR is presented net of management fees, carried interest and expenses charged by the general partners of the underlying investments, but does not include our management fees, carried interest or expenses. See “—Performance Methodology” below for more information on how our returns are calculated.

Specialized Fund Performance

We organize, invest and manage primary, secondary and direct/co-investment funds. Our funds invest across a variety of private markets and include equity, equity-linked and credit funds offered on standard terms, as well as shorter duration, opportunistically oriented funds. Below is performance information across our various specialized funds. All of these funds are globally focused, and they are grouped by the investment strategy utilized.

Gross Returns — Realized

Fund	Vintage year	Fund size (\$M)	Realized Capital invested (\$M)	Realized Gross multiple	Realized Gross IRR (%)	Realized Gross Spread vs. S&P 500 PME	Realized Gross Spread vs. MSCI World PME
Primaries (Diversified)							
PEF I	1998	122	117	1.3	5.4%	378 bps	322 bps
PEF IV	2000	250	238	1.7	16.2%	1,302 bps	1,170 bps
PEF V	2003	135	133	1.7	14.5%	868 bps	983 bps
PEF VI	2007	494	477	1.6	12.4%	199 bps	541 bps
PEF VII	2010	262	158	1.5	16.5%	231 bps	661 bps
PEF VIII	2012	427	5	1.6	17.9%	806 bps	1,176 bps
PEF IX	2015	517	25	1.8	43.4%	3,061 bps	3,344 bps
PEF X	2018	170	N/A	N/A	N/A	N/A	N/A
Secondaries							
Pre-Fund	—	—	362	1.5	17.1%	1,321 bps	1,165 bps
Secondary Fund I	2005	360	353	1.2	5.2%	112 bps	340 bps
Secondary Fund II	2008	591	534	1.6	21.9%	686 bps	1,100 bps
Secondary Fund III	2012	909	353	1.6	24.7%	1,218 bps	1,656 bps
Secondary Fund IV	2016	1,917	66	1.6	46.5%	3,143 bps	3,359 bps
Co-investments							
Pre-Fund	—	—	244	1.9	21.3%	1,654 bps	1,602 bps
Co-Investment Fund	2005	604	450	1.2	3.4%	(263) bps	(11) bps
Co-Investment Fund II	2008	1,195	799	2.6	22.5%	1,050 bps	1,430 bps
Co-Investment Fund III	2014	1,243	153	2.5	76.0%	6,178 bps	6,565 bps
Co-Investment Fund IV	2018	1,198	N/A	N/A	N/A	N/A	N/A
Strategic Opportunities (Tail-end secondaries and credit)							
Strat Opps 2015	2015	71	45	1.3	19.2%	896 bps	1,297 bps
Strat Opps 2016	2016	214	101	1.2	19.2%	1,138 bps	1,345 bps
Strat Opps 2017	2017	435	49	1.2	24.8%	2,423 bps	2,037 bps
Strat Opps 2018	2018	889	N/A	N/A	N/A	N/A	N/A

Gross Returns — Realized and Unrealized

Fund	Vintage year	Fund size (\$M)	Capital invested (\$M)	Gross multiple	Net Multiple	Gross IRR (%)	Net IRR (%)	Gross Spread vs. S&P 500 PME	Net Spread vs. S&P 500 PME	Gross Spread vs. MSCI World PME	Net Spread vs. MSCI World PME
Primaries (Diversified)											
PEF I	1998	122	117	1.3	1.2	5.4%	2.5%	378 bps	76 bps	322 bps	16 bps
PEF IV	2000	250	238	1.7	1.5	16.2%	11.2%	1,302 bps	828 bps	1,170 bps	708 bps
PEF V	2003	135	133	1.7	1.6	14.5%	9.8%	868 bps	389 bps	983 bps	497 bps
PEF VI	2007	494	510	1.6	1.6	12.0%	9.3%	147 bps	(90) bps	491 bps	248 bps
PEF VII	2010	262	280	1.5	1.5	13.8%	9.7%	126 bps	(283) bps	540 bps	120 bps
PEF VIII	2012	427	362	1.3	1.3	11.3%	8.1%	267 bps	(85) bps	619 bps	256 bps
PEF IX	2015	517	343	1.3	1.2	17.1%	14.8%	975 bps	908 bps	1,291 bps	1,221 bps
PEF X	2018	170	20	1.1	1.0	21.3%	(2.1)%	3,212 bps	1,357 bps	3,505 bps	1,509 bps
Secondaries											
Pre-Fund	—	—	362	1.5	N/A	17.1%	N/A	1,321 bps	N/A	1,165 bps	N/A
Secondary Fund I	2005	360	353	1.2	1.2	5.2%	3.8%	112 bps	(60) bps	340 bps	160 bps
Secondary Fund II	2008	591	571	1.6	1.4	20.4%	14.3%	533 bps	(92) bps	953 bps	318 bps
Secondary Fund III	2012	909	804	1.5	1.4	18.4%	14.7%	737 bps	341 bps	1,136 bps	742 bps
Secondary Fund IV	2016	1,917	1,414	1.2	1.2	28.6%	33.7%	2,574 bps	3,711 bps	2,919 bps	4,039 bps
Co-investments											
Pre-Fund	—	—	244	1.9	N/A	21.3%	N/A	1,654 bps	N/A	1,602 bps	N/A
Co-Investment Fund	2005	604	577	1.1	1.0	0.8%	(0.7)%	(510) bps	(689) bps	(257) bps	(441) bps
Co-Investment Fund II	2008	1,195	1,132	2.1	1.8	19.4%	15.6%	764 bps	373 bps	1,152 bps	756 bps
Co-Investment Fund III	2014	1,243	1,244	1.4	1.3	18.5%	14.4%	994 bps	619 bps	1,329 bps	944 bps
Co-Investment Fund IV	2018	1,198	359	1.1	1.0	16.7%	8.0%	3,360 bps	3,672 bps	3,645 bps	3,742 bps

Fund	Vintage year	Fund size (\$M)	Capital invested (\$M)	Gross multiple	Net Multiple	Gross IRR (%)	Net IRR (%)	Gross Spread vs. CS HY II PME	Net Spread vs. CS HY II PME	Gross Spread vs. CS LL PME	Net Spread vs. CS LL PME
Strategic Opportunities (Tail-end secondaries and credit)											
Strat Opps 2015	2015	71	67	1.3	1.2	15.0%	11.6%	666 bps	329 bps	958 bps	619 bps
Strat Opps 2016	2016	214	214	1.2	1.2	14.8%	12.2%	943 bps	711 bps	1,036 bps	800 bps
Strat Opps 2017	2017	435	433	1.1	1.1	11.3%	9.2%	1,216 bps	1,012 bps	971 bps	788 bps
Strat Opps 2018	2018	889	434	1.0	1.0	9.2%	9.6%	1,620 bps	1,584 bps	1,412 bps	1,317 bps

Performance Methodology

The indices presented for comparison are the S&P 500, MSCI World, Credit Suisse High Yield II (“CS HY II”) and Credit Suisse Leverage Loan (“CS LL”), calculated on a PME basis. We believe these indices are commonly used by private markets and credit investors to evaluate performance. The PME calculation methodology allows private markets investment performance to be evaluated against a public index and assumes that capital is being invested in, or withdrawn from, the index on the days the capital was called and distributed from the underlying fund managers. The S&P 500 Index is a total return capitalization-weighted index that measures the performance of 500 U.S. large cap stocks. The MSCI World Index is a free float-adjusted market capitalization-weighted index of over 1,600 world stocks that is designed to measure the equity market performance of developed markets. The CS HY II Index, formerly known as the DLJ High Yield Index, is designed to mirror the investable universe of the U.S. dollar denominated high yield debt market. Prices for the CS HY II Index are available on a weekly basis. The CS LL Index is an index designed to mirror the investable universe of the U.S. dollar denominated leveraged loan market. Loans must be rated 5B or lower and the index frequency is monthly.

Our IRR represents the pooled IRR for all discretionary investments for the period from inception to December 31, 2018. The returns are net of management fees, carried interest and expenses charged by the underlying fund managers, but do not include our management fees, carried interest or expenses. Our IRR would decrease with the inclusion of our management fees, carried interest and expenses.

The “Realized IRR” represents the pooled IRR for those discretionary investments that we consider realized for purposes of our track record, which are investments where the underlying investment fund has been fully liquidated, has generated a distributions to paid-in capital ratio (“DPI”) greater than or equal to 1.0, or is older than six years and has a residual value to paid-in capital ratio (“RVPI”) less than or equal to 0.2. Hamilton Lane Secondary Realized includes investments that have been fully liquidated, have a DPI greater than or equal to 1.0, or a RVPI less than or equal to 0.2. Hamilton Lane Realized Co-Investment and Hamilton Lane Realized Strategic Opportunities include investments that have been fully liquidated or have a DPI greater than or equal to 1.0. “Unrealized” includes all investments that do not meet the aforementioned criteria. DPI represents total distributions divided by total invested capital. RVPI represents the remaining market value divided by total invested capital. “Capital Invested” refers to the total amount of all investments made by a fund, including commitment-reducing and non-commitment-reducing capital calls. “Multiple” represents total distributions from underlying investments to the fund plus the fund’s market value divided by total contributed capital. “Gross Multiple” is presented net of management fees, carried interest and expenses charged by the fund managers of the underlying investments.

Specialized fund and pre-fund performance does not include ten funds-of-funds that have investor-specific investment guidelines.

Certain of our specialized funds utilize revolving credit facilities, which provide capital that is available to fund investments or pay partnership expenses and management fees. Borrowings may be paid down from time to time with investor capital contributions or distributions from investments. The use of a credit facility affects the fund’s return and magnifies the performance on the upside or on the downside.

Assets Under Management and Advisement

As of March 31, 2019, we had total AUA and AUM of approximately \$484 billion, of which \$61 billion represents AUM from our customized separate accounts and specialized funds, and \$422 billion represents AUA managed on behalf of our advisory accounts. Our AUM and AUA have distinctive terms and fee arrangements, and therefore are presented separately in this section.

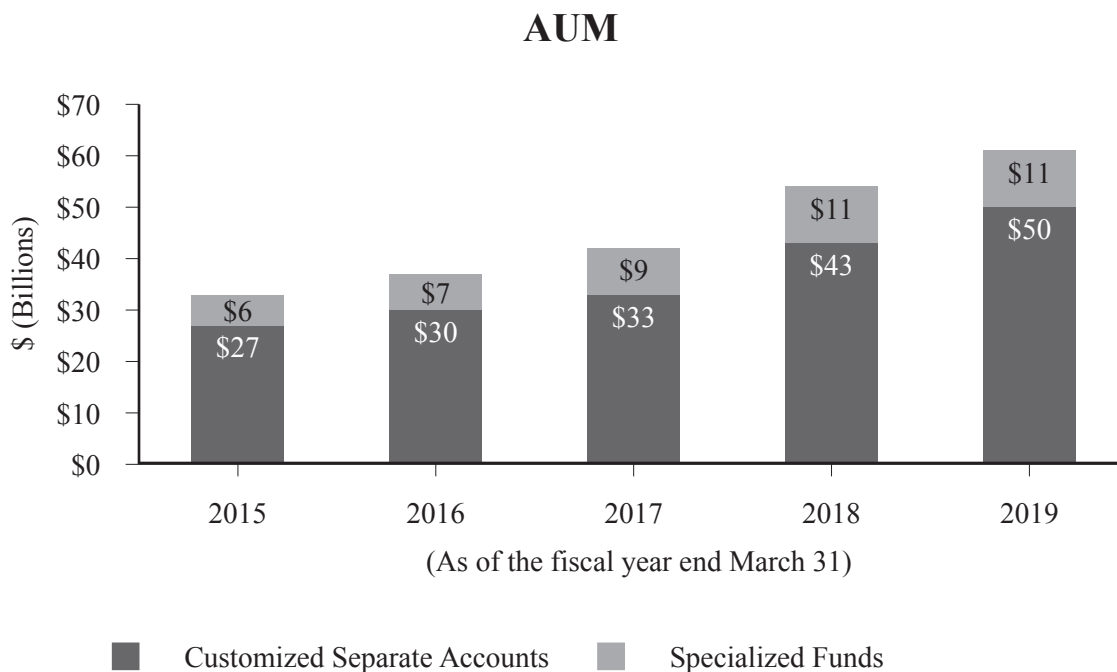
AUM

Our AUM comprises primarily the assets associated with our customized separate accounts and specialized funds. We classify assets as AUM if we have full discretion over the investment decisions in an account. We calculate our AUM as the sum of:

- (1) the NAV of our clients’ and funds’ underlying investments;
- (2) the unfunded commitments to our clients’ and funds’ underlying investments; and
- (3) the amounts authorized for us to invest on behalf of our clients and fund investors but not committed to an underlying investment.

Management fee revenue is based on a variety of factors and is not linearly correlated with AUM. However, we believe AUM is a useful metric for assessing the relative size and scope of our asset management business.

Our AUM has grown from approximately \$33 billion as of March 31, 2015 to approximately \$61 billion as of March 31, 2019, representing a CAGR of approximately 17%. The following chart summarizes this growth.

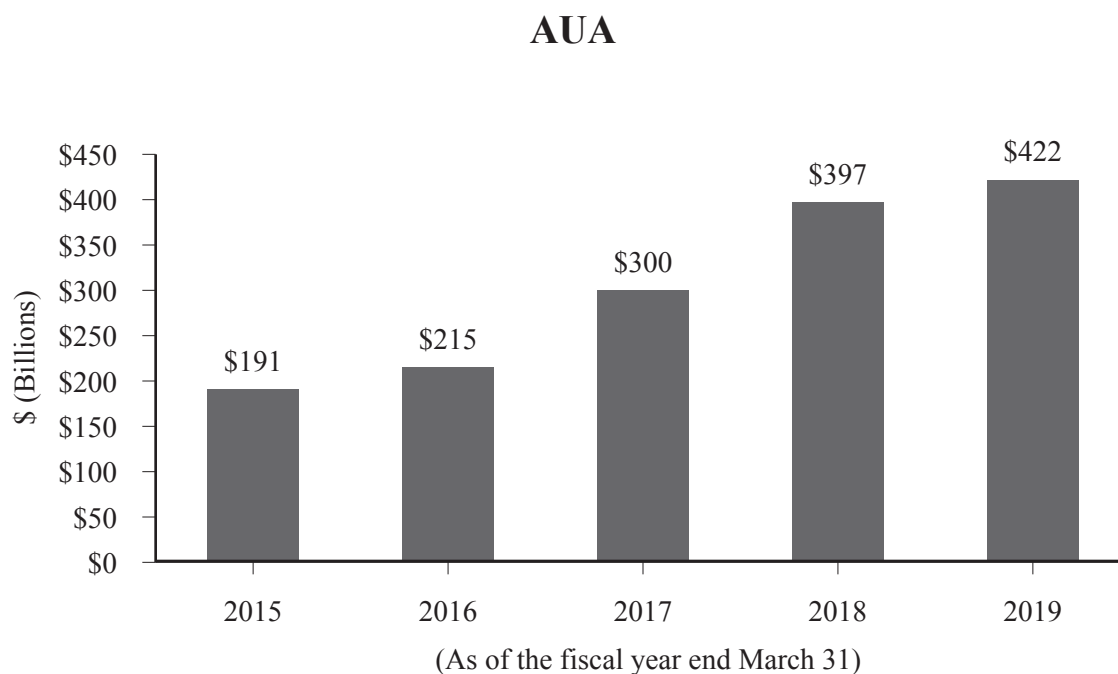


AUA

Our AUA comprise assets from clients for which we do not have full discretion to make investments in their account. We generally earn revenue on a fixed fee basis on our AUA client accounts for services including asset allocation, strategic planning, development of investment policies and guidelines, screening and recommending investments, legal negotiations, monitoring and reporting on investments and investment manager review and due diligence. Advisory fees vary by client based on the amount of annual commitments, services provided and other factors. Since we earn annual fixed fees from the majority of our AUA clients, the growth in AUA from existing accounts does not have a material impact on our revenues. However, we view AUA growth as a meaningful benefit in terms of the amount of data we are able to collect and the degree of influence we have with fund managers.

Assets related to our advisory accounts have increased from approximately \$191 billion as of March 31, 2015, to approximately \$422 billion as of March 31, 2019, representing a CAGR of approximately 22%. Our AUA clients are predominately large institutional investors with 46% of AUA related to public pension funds and 39% related to sovereign wealth funds. Our AUA is diversified across geographies with approximately 50% derived from clients based outside of the United States.

The following chart summarizes the growth of our AUA since fiscal year 2015.



Diversification of Assets

Given our goal of achieving strong investment returns and portfolio diversification for clients, investments are made across multiple private markets sub-asset classes, including corporate finance/buyout, growth equity, venture capital, mezzanine, distressed debt and other special situation funds (e.g., industry-focused funds and multi-stage funds). Because we have a considerable volume of investment opportunities globally, we selectively invest not only across sub-asset classes, but also across all major geographic regions, including North America, Europe, Asia, Australasia, Latin America, the Middle East and Africa.

Fee-Earning Assets Under Management

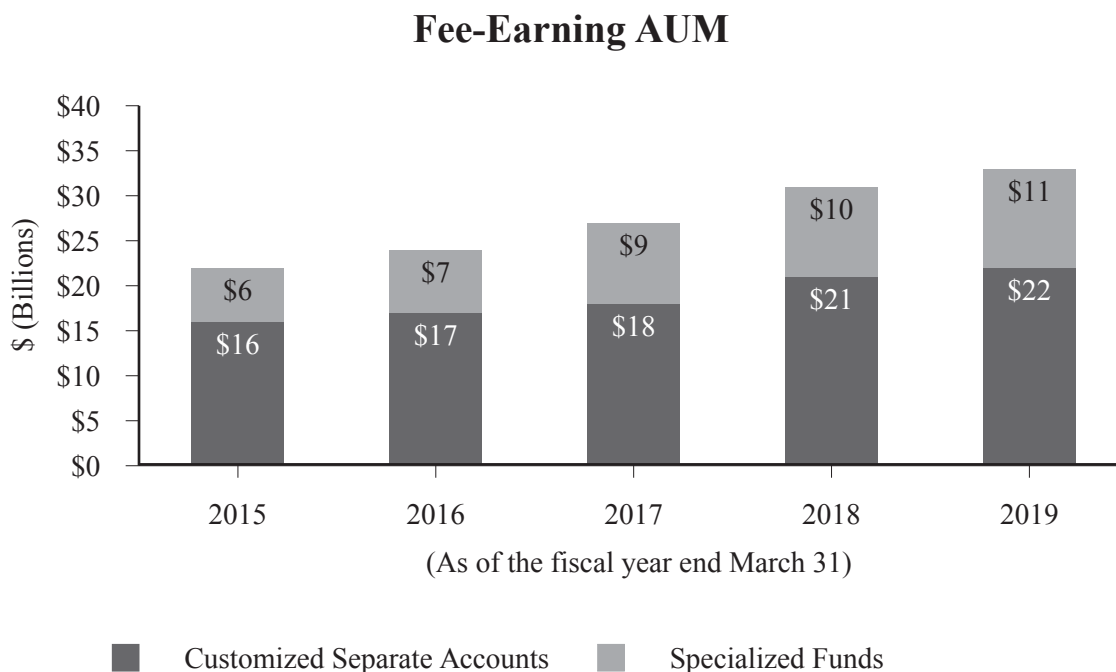
We view fee-earning AUM as a metric to measure the assets from which we earn management fees. Our fee-earning AUM comprise assets in our customized separate accounts and specialized funds from which we derive management fees. We classify customized separate account revenue as management fees if the client is charged an asset-based fee, which includes the majority of our discretionary AUM accounts but also includes certain non-discretionary AUA accounts. Our fee-earning AUM is equal to the amount of capital commitments, net invested capital and NAV of our customized separate accounts and specialized funds depending on the fee terms. Substantially all of our customized separate accounts and specialized funds earn fees based on commitments or net invested capital, which are not affected by market appreciation or depreciation. Therefore, revenues and fee-earning AUM are not significantly affected by changes in market value.

Our calculations of fee-earning AUM may differ from the calculations of other asset managers, and as a result, this measure may not be comparable to similar measures presented by other asset managers. Our

definition of fee-earning AUM is not based on any definition that is set forth in the agreements governing the customized separate accounts or specialized funds that we manage.

As of March 31, 2019, our fee-earning AUM was approximately \$34 billion compared to \$61 billion in AUM. The difference is due primarily to \$21 billion of discretionary AUM earning a flat fee or fee on number of funds for which we categorize revenue as advisory and reporting. This was partially offset by \$3 billion of fee-earning AUM from customized separate accounts clients with non-discretionary AUA. The remaining \$9 billion is non fee-earning AUM.

The following chart summarizes the growth of our fee-earning AUM since fiscal year 2015.



* Amounts may not foot due to rounding

Our Clients

Our client base primarily comprises institutional investors that range from those seeking to make an initial investment in alternative assets to some of the largest and most sophisticated private markets investors. As a highly customized, flexible outsourcing partner, we are equipped to provide investment services to institutional clients of all sizes and with different needs, internal resources and investment objectives. Our clients include prominent institutional investors in the United States, Europe, the Middle East, Asia, Australia and Latin America. We believe we are a leading provider of private markets solutions for U.S. labor union pension plans, and we serve numerous smaller public and corporate pension plans, sovereign wealth funds, financial institutions and insurance companies, endowments and foundations, as well as family offices and selected high-net-worth individuals.

As of March 31, 2019, our client and investor base included over 500 institutions and intermediaries and is broadly diversified by type, size and geography. Our intermediary clients enable us to provide our investment products to an expanded range of high-net-worth individuals and families. We have a diversified revenue stream from a variety of client types in multiple geographic regions, with no single client representing more than 5% of management and advisory fee revenues. Approximately 47% of our

fiscal 2019 management and advisory fee revenues came from clients based outside of the United States. A significant portion of our revenue base is recurring and, based on the long-term nature of our funds as well as long-term relationships with many of our clients, provides highly predictable cash flows. For the year ended March 31, 2019, our top 10 clients generated approximately 23% of management and advisory fee revenues, and our top 20 clients generated approximately 34% of management and advisory fee revenues.

Sales and Marketing

Our business development group consists of employees around the world, including in the United States, United Kingdom, Hong Kong, Japan, South Korea, Brazil, Israel, Australia and Germany. We intend to grow our global sales force as we seek to continue to build our client base and pursue growth opportunities in less developed private equity markets such as Asia and Australia. See “—Business Strategy.” The execution of our marketing strategy relies primarily on our own business development group, which historically has generated the substantial majority of our new client engagements. To enhance our access to markets where we do not currently have a local presence or that are dominated by captive client relationship models, we selectively engage highly respected third-party organizations to market our products and services. For example, we use third-party distributors in Asia and Latin America (other than Brazil).

Our business development group is responsible for identifying and contacting prospective clients for our products and services. Our sales people also work directly with consultants that advise smaller and medium-size institutional investors, which often rely on the consultants for advice in the alternative investment area. Following the initial round of meetings and presentations, prospective advisory and customized separate account clients and specialized fund investors that wish to learn more about us often visit our offices with a team to conduct in-depth due diligence of our firm. Our business development people lead this process, coordinate meetings, and continue to be the prospective client’s principal contact with us through the decision-making process.

Client Service

Our client service group includes employees located in the United States, United Kingdom, Japan, Hong Kong, Brazil, Israel, South Korea, and Australia. At the beginning of the engagement for each advisory account and customized separate account, a member of the relationship management group is assigned as the principal contact person with that client. The relationship managers take primary responsibility for working with the clients to design their strategic plans and to implement those plans in accordance with investment guidelines agreed to by us and the clients. The relationship managers work directly with our allocation committee to ensure that all investment opportunities that are appropriate for their clients are considered. The relationship managers communicate and meet regularly with their clients to discuss potential investments that we are currently considering, funds expected to be raised in the next 12 months, the current status of the clients’ portfolios, investment strategies and overall market conditions.

Within the client service group, our portfolio management services group is dedicated to tracking and reporting on primary investments, secondary investments and direct/co-investments that we manage for our clients. This group also uses the services of third-party administrators and analysts, particularly with respect to specialized funds. We maintain a disciplined investment monitoring process designed to adapt portfolio allocation to enhance returns in our advisory and customized separate account portfolios, as well as in our specialized funds. Once a primary or secondary investment is closed, we have frequent conversations with private markets fund managers, hold periodic in-person meetings and attend annual meetings and advisory board meetings. This process generally is led by members of the investment team

but also includes members of the relationship management team as well as other members of the senior management team. We have active advisory board seats on behalf of our clients and participate on numerous valuation committees.

Our team of professionals closely follows the activities and investments in clients' portfolios. The team measures adherence to the stated strategies and limited partnership agreement terms. The team is in regular contact with fund managers, which allows for early detection of potential issues and timely development of constructive recommendations.

We actively track and report on each investment and on overall portfolios. We provide clients with comprehensive and customized quarterly and annual reports. iLevel, our online, interactive client reporting platform, affords clients always available, secure, Internet-based access to their portfolios. Clients can download timely information on cash flows, adjusted valuations, adjusted capital account schedules, underlying portfolio company information and other data provided by private markets fund managers or developed internally by our in-house reporting team.

Fees and Other Key Contractual Terms

Customized Separate Accounts

We enter into written contracts with each of our customized separate account clients. Within agreed-upon investment guidelines, we generally have full discretion to buy, sell or otherwise effect investment transactions involving the assets in the account, in the name and on behalf of the client, although in some cases certain clients have the right to veto investments. Our discretion generally includes decisions related to, among other matters: voting securities; entering into and terminating contracts; commencing, settling or discontinuing claims or actions; exercising options, conversion or subscription rights; whether to join, dissent from or oppose the reorganization, recapitalization, liquidation, merger, sale, mortgage, pledge or lease of any securities or other property constituting a part of the committed capital; depositing the committed capital with any protective, reorganization or similar committee and paying expenses of such committees and assessments on deposits with them; entering into brokerage accounts in the name of the client; and generally taking or refraining from taking any other action related to the investment or reinvestment of the committed capital. The discretion to invest committed capital generally is subject to investment guidelines established by our clients or by us in conjunction with our clients.

Fees. While the specific terms of our contracts vary significantly from client to client, generally our customized separate account clients are charged asset-based fees annually on committed or net invested capital. These fees often decrease over the life of the contract due to built-in declines in contractual rates and/or as a result of lower net invested capital balances as capital is returned to clients. For some customized separate accounts, we charge clients annual fixed fees, and, in certain cases, we earn an incentive fee based on realized gains, particularly when the investment strategies include secondary investments and direct/co-investments. In certain cases, we provide advisory services and therefore we also receive fees for services such as monitoring and reporting on a client's existing private markets investments. In addition, we may provide for investments in our specialized funds as part of our customized separate accounts, and therefore we also receive incentive fees based on realized gains of investments in our specialized funds under their terms. We reduce the management fees on customized separate accounts to the extent that assets in the accounts are invested in our specialized funds so that our clients do not pay duplicate fees.

Duration and Termination. Customized separate account contracts have varying durations of up to 12 years or indefinite lives, and typically can be terminated by our clients for any reason generally upon 30 to 90 days' notice or can only be terminated for specified reasons. Some contracts provide for termination

on shorter or longer notice. Some contracts provide for penalty fees to be paid to us if termination occurs before the end of the stated term in the absence of cause. See “Risk Factors—Risks Related to Our Business—Customized separate account and advisory account fee revenue is not a long-term contracted source of revenue and is subject to intense competition” included in Part I, Item 1A of this Form 10-K.

Structure. Most of our customized separate accounts are simple contractual arrangements involving an investment management agreement between us and the client. In some cases, at the client’s request, we establish a separate investment vehicle, generally a limited partnership with the client as the sole limited partner and a wholly owned subsidiary of HLA as the general partner. Our capital commitment to the limited partnership is generally 1% of total capital commitments but in certain cases may be higher or lower. We manage the limited partnership under an investment management agreement between the partnership and us. The limited partnership generally is formed in Delaware or a non-U.S. jurisdiction, such as the Cayman Islands, in accordance with the client’s specifications. We manage all aspects of the limited partnership, utilizing the services of third parties as needed, including administrators and custodial banks. Our fees for these customized separate accounts are substantially the same as customized separate accounts that do not involve a separate investment vehicle.

Specialized Funds

Since 1997, we have sponsored 21 primary funds, four secondary funds, five direct/co-investment funds, five Strategic Opportunities funds and one Small Business Investment Company fund. The terms of each fund vary. We have described below the key terms of these funds.

Capital Commitments. Investors in our specialized funds generally make commitments to provide capital at the outset of a fund and deliver capital when called upon by us, as investment opportunities become available and to fund operational expenses and other obligations. The commitments are generally available for investment for three to six years, during what we call the commitment period. However, our Strategic Opportunities funds have one- to two-year commitment periods and, in the case of one of our direct/co-investment funds, the investors do not commit capital at the commencement of the fund but rather have the right to make their own investment decisions as to each investment opportunity that we present to them. We typically have invested the capital committed to our funds, other than our Strategic Opportunities funds, over a three- to five-year period.

Structure. We conduct the management of our specialized funds primarily through structures in which limited partnerships organized by us accept commitments or funds from investors. The investors become limited partners in the funds and a separate entity that we form and control acts as the general partner. Our capital commitment to the limited partnership is generally 1% of total capital commitments. HLA, to which we refer as the “Manager,” generally serves as the investment manager of our funds. The Manager is registered as an investment advisor under the Investment Advisers Act of 1940 (the “Investment Advisers Act”). Responsibility for helping a fund’s general partner with all aspects of the day-to-day operations of the fund generally is delegated to the Manager pursuant to an investment management agreement. The material terms of our investment management agreements relate to the scope of services to be rendered by the Manager to the applicable funds and certain rights of termination. The funds themselves do not register as investment companies under the Investment Company Act of 1940, as amended (the “Investment Company Act”), in reliance on exemptions from such registration.

The Manager generally makes all decisions concerning the making, monitoring and disposing of investments pursuant to authority delegated by the specialized fund’s general partner. The limited partners take no part in the conduct or control of the business of the funds, have no right or authority to act for or bind the funds and have no influence over the voting or disposition of the securities or other assets held by the funds. These decisions are made by us as the Manager in our sole discretion pursuant to authority

delegated by the general partner, subject to the investment limitations set forth in the agreements governing each fund. The limited partners often have the right to remove the general partner for cause or effect an early dissolution by supermajority vote, or in certain cases by a simple majority vote. In addition, the governing agreements of our funds typically require the suspension of the commitment period if, depending on the fund, between two and ten designated principals of the Manager cease to devote sufficient professional time to or cease to be employed by the Manager, often called a “key man event”, or in connection with certain other events discussed under “—Duration, Redemption and Termination.” See “Risk Factors—Risks Related to our Business—Our ability to retain our senior management team and attract additional qualified investment professionals is critical to our success” included in Part I, Item 1A of this Form 10-K.

Management Fees. We earn management fees based on a percentage of limited partners’ capital commitments to, or net invested capital in, our specialized funds. The management fee during the commitment period is charged on capital commitments and after the commitment period (or a defined anniversary of the fund’s initial closing) is reduced by a percentage of the management fee for the preceding year or charged on net invested capital. In the case of certain funds, we charge management fees on capital commitments, with the management fee increasing during the early years of the fund’s term and declining in the later years. Management fees for certain funds are discounted based on the amount of the limited partners’ commitments or if the limited partners are investors in our other funds. Management fees would be reduced in the event that any monitoring, consulting, investment banking, advisory, transaction, directors’ or break-up or similar fees are paid to the fund’s general partner, the Manager or any of their affiliates or principals.

Incentive Fees. The incentive fees charged by our specialized funds are generally referred to as “carried interest.” Our primary funds invest the majority of their capital in other private markets funds on a primary basis, and certain of our primary funds earn carried interest on these investments. To the extent that our primary funds also directly make secondary investments and direct/co-investments, they generally earn carried interest equal to a fixed percentage of net profits, subject to a compounded annual preferred return in respect of those investments. Carried interest from these primary funds is earned on a “full return” basis when all invested capital and the applicable preferred return has been received or on a “deal-by-deal” basis when all capital invested and the applicable preferred return has been received either on all realized investments or on each individual investment.

For each of our secondary funds, direct/co-investment funds and Strategic Opportunities funds, we generally earn carried interest equal to a fixed percentage of net profits, subject to a compounded annual preferred return that varies based on fund type. In our secondary funds, we generally earn carried interest on a full-return basis. In the case of certain of our direct/co-investment funds and our Strategic Opportunities funds, we earn carried interest on a deal-by-deal basis.

If, upon the final distribution of any of our specialized funds from which we earn carried interest, the relevant fund’s general partner has received cumulative carried interest in excess of the amount to which it would be entitled from the profits calculated for such investments in the aggregate, or if the limited partners have not received distributions equal to those to which they are entitled, the general partner will return such part of any carried interest to the limited partners as is necessary to ensure that they receive the amounts to which they are entitled, less taxes on the carried interest. We refer to these provisions as “clawbacks.” Most of our funds that provide for carried interest require a full return of capital and expenses to investors before any carried interest is paid to us, which minimizes the risk of a clawback obligation.

Duration, Redemption and Termination. Our specialized funds, other than our Strategic Opportunities funds, generally terminate 10 to 14 years after either the first or last date on which a limited partner is admitted to the fund, or, in the case of certain funds, terminate on a specified anniversary date. Our main primary, secondary and direct/co-investment funds have an average term of approximately 12 years. Our Strategic Opportunities funds terminate five years after the last date on which a limited partner may be admitted to the fund. Our funds are generally subject to extension for up to two years at the discretion of the general partner and thereafter if consent of the requisite majority of limited partners or, in some cases, the fund's advisory committee is obtained.

Limited partnership interests in our specialized funds are not subject to redemption prior to termination of the funds. Termination or dissolution of the funds and the suspension of their commitment periods, however, can generally be accelerated upon the occurrence of certain customary events, including key man events, bankruptcy and similar events and the occurrence of fraud, willful malfeasance or gross negligence and other similar events. Such funds also may be terminated upon the affirmative vote, depending on the fund, of 75% to 85% of the total limited partner interests entitled to vote.

Advisory Services

We enter into written contracts with each of our advisory services clients. Advisory service clients are generally charged annual fixed fees, which vary depending on the services we provide. In limited cases, advisory service clients are charged basis point fees annually based on the amounts they have committed to invest pursuant to their agreements with us. In other cases where our services are limited to monitoring and reporting on investment portfolios, clients are charged a fee based on the number of investments in their portfolio. We generally do not earn incentive fees based on advisory contracts.

Our advisory services contracts have various durations ranging from one year to indefinite terms. A majority of our advisory service contracts have durations of approximately three years and renew at the option of the client at the end of the stated term. Advisory contracts can typically be terminated by our clients for any reason upon short notice, generally 30 to 90 days, although some contracts provide for termination on shorter or longer notice or can only be terminated for specified reasons. Advisory contracts with governmental pension plans typically are subject to a renewal process involving our submission of information in response to a request for proposal ("RFP") issued by the client. We submit extensive, detailed information pursuant to the RFP procedures on a confidential basis, often in competition with other investment advisors bidding on the contract. In these cases, we generally do not know the identity of the other bidders or the substance of their proposals. The RFP procedures prohibit communications between bidders and the issuer of the RFP relating to the proposals during the bidding process.

Distribution Management

We enter into written contracts with each of our distribution management clients. These clients engage us to manage the liquidation of publicly traded securities that they receive as distributions from funds in which they are investors. Our agreements provide for either "managed liquidation" where the securities are sold within 90 days after distribution or "active management" where the securities are sold over a longer period.

Distribution management clients are charged basis point fees on either the net proceeds received from the sale of their securities or the aggregate amount of a client's managed assets and vary depending on whether the account is for managed liquidation or active management services. Alternatively, active management clients may elect an incentive fee structure under which they are charged an asset-based fee plus an incentive fee based on net realized and unrealized gains and income net of realized and unrealized losses. The incentive fee is then credited to a notional account, and we are entitled to a fixed percentage

of any positive balance in the notional account on an annual basis. The remaining portion of any positive balance in the notional account is carried forward to the following year. If the incentive fee calculation results in a negative amount in a given year, that amount is applied to reduce the balance in the notional account. We are not required to repay any negative balance in the notional amount.

Distribution management contracts have varying durations, some with indefinite terms, and typically can be terminated by our clients for any reason generally upon 30 to 90 days' notice. Some contracts provide for termination on shorter or longer notice.

Competition

We compete in all aspects of our business with a large number of asset management firms, commercial banks, broker-dealers, insurance companies and other financial institutions. With respect to our specialized funds, we primarily compete with the alternative asset management businesses of a number of large international financial institutions and established local and regional competitors based in the United States, Europe and Asia, including managers offering funds-of-funds, secondary funds and direct/co-investment funds in the private markets. Our principal competition for customized separate accounts is mostly other highly specialized and independent private markets asset management firms. We compete primarily in the advisory services area of the business with firms that are regionally based and with a select number of large consulting firms for whom private markets investments is only one, often small, portion of their overall business.

In order to grow our business, we must be able to compete effectively to maintain our existing client base and attract additional clients in advisory services, customized separate account and specialized fund areas of the business. Historically, we have competed principally on the basis of the factors listed below:

- Global access to private markets investment opportunities through our size, scale, reputation and strong relationships with private markets fund managers;
- Brand recognition and reputation within the investing community;
- Performance of investment strategies;
- Quality of service and duration of client relationships;
- Ability to provide cost effective and comprehensive range of services and products; and
- Clients' perceptions of our independence and the alignment of our interests with theirs created through our investment in our own products.

The asset management business is intensely competitive, and in addition to the above factors, our ability to continue to compete effectively will depend upon our ability to attract highly qualified investment professionals and retain existing employees.

Legal and Compliance

Reporting to our chief executive officer, our general counsel oversees our legal team, which is comprised of attorneys located primarily in our corporate headquarters in Bala Cynwyd, Pennsylvania. Most of our customized separate account clients and certain of our advisory clients rely on us to review, analyze and negotiate the terms of the documents relating to primary, secondary and direct/co-investments. Working together with our investment teams, our attorneys negotiate directly with fund managers and deal sponsors and their counsel the terms of all limited partnership agreements, subscription documents, side letters, purchase agreements and other documents relating to primary, secondary and direct/co-investments. Our attorneys also review and make recommendations regarding amendments and requests for consents presented by the fund managers from time to time. In addition, our legal team is responsible for preparing, reviewing and negotiating all documents relating to the formation and operation of our funds. We utilize the services of outside counsel as we deem necessary.

Our compliance team is led by our chief compliance officer, who reports to our chief executive officer. Our chief compliance officer has day-to-day management responsibility for the compliance team. The compliance team is responsible for overseeing and enforcing our policies and procedures relating to compliance with the Investment Advisers Act and related rules and regulations and our code of ethics, as well as the compliance policies and procedures and laws and regulations that apply to our non-U.S. subsidiaries and operations. In addition, the compliance team is responsible for all regulatory matters relating to Hamilton Lane Securities, LLC, our SEC- and FINRA-registered broker-dealer affiliate through which we offer interests in our specialized funds.

Regulatory Environment

Our business is subject to extensive regulation in the United States at both the federal and state level. Under these laws and regulations, the SEC and relevant state securities authorities have broad administrative powers, including the power to limit, restrict or prohibit an investment advisor from carrying on its business if it fails to comply with such laws and regulations. Possible sanctions that may be imposed include the suspension of individual employees, limitations on engaging in certain lines of business for specified periods of time, revocation of investment advisor and other registrations, censures and fines.

SEC Regulation

HLA is registered as an investment advisor with the SEC. As a registered investment advisor, it is subject to the requirements of the Investment Advisers Act, and the rules promulgated thereunder, as well as to examination by the SEC's staff. The Investment Advisers Act imposes substantive regulation on virtually all aspects of our business and our relationships with our clients. Applicable requirements relate to, among other things, fiduciary duties to clients, engaging in transactions with clients, maintaining an effective compliance program, incentive fees, solicitation arrangements, allocation of investments, conflicts of interest, advertising, recordkeeping, reporting and disclosure requirements. The Investment Advisers Act regulates the assignment of advisory contracts by the investment advisor. The SEC is authorized to institute proceedings and impose sanctions for violations of the Investment Advisers Act, ranging from fines and censures to termination of an investment advisor's registration. The failure of HLA to comply with the requirements of the Investment Advisers Act or the SEC could have a material adverse effect on us.

Our customized separate accounts and specialized funds are not registered under the Investment Company Act because we only form customized separate accounts for, and offer interests in our

specialized funds to, persons who we reasonably believe to be “qualified purchasers” as defined in the Investment Company Act.

ERISA-Related Regulation

Some of our specialized funds are treated as holding “plan assets” as defined under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), as a result of investments in those funds by benefit plan investors. By virtue of its role as investment manager of these funds, HLA is a “fiduciary” under ERISA with respect to such benefit plan investors. ERISA and the Internal Revenue Code of 1986, as amended (the “Code”), impose certain duties on persons that are fiduciaries under ERISA, prohibit certain transactions involving benefit plans and “parties in interest” or “disqualified persons” to those plans, and provide monetary penalties for violations of these prohibitions. With respect to these funds, HLA relies on particular statutory and administrative exemptions from certain ERISA prohibited transactions, which exemptions are highly complex and may in certain circumstances depend on compliance by third parties whom we do not control. The failure of HLA or us to comply with these various requirements could have a material adverse effect on our business.

In addition, with respect to other investment funds in which benefit plan investors have invested, but which are not treated as holding “plan assets,” we and HLA rely on certain rules under ERISA in conducting investment management activities. These rules are sometimes highly complex and may in certain circumstances depend on compliance by third parties that we do not control. If for any reason these rules were to become inapplicable, we and HLA could become subject to regulatory action or third-party claims that could have a material adverse effect on our business.

Foreign Regulation

We provide investment advisory and other services and raise funds in a number of countries and jurisdictions outside the United States. In many of these countries and jurisdictions, which include the European Union (“EU”), the European Economic Area (“EEA”), the individual member states of each of the EU and EEA, Australia, Brazil, Canada, Hong Kong, Israel, Japan and South Korea, we and our operations, and in some cases our personnel, are subject to regulatory oversight and requirements. In general, these requirements relate to registration, licenses for our personnel, periodic inspections, the provision and filing of periodic reports, and obtaining certifications and other approvals. Across the EU, we are subject to the European Union Alternative Investment Fund Managers Directive (“AIFMD”) requirements regarding, among other things, registration for marketing activities, the structure of remuneration for certain of our personnel and reporting obligations. Individual member states of the EU have imposed additional requirements that may include internal arrangements with respect to risk management, liquidity risks, asset valuations, and the establishment and security of depository and custodial requirements.

The application of some of these requirements and regulations to our business will likely change in connection with the anticipated exit of the United Kingdom (“U.K.”) from the EU (“Brexit”). For example, our subsidiaries that are authorized and regulated by the U.K. Financial Conduct Authority could potentially lose “passporting” privileges under certain EU directives, such as the AIFMD and the Markets in Financial Instruments Directive II (“MiFID II”), which certain of our specialized funds and customized separate accounts rely upon for access to markets throughout the EU. In preparation for this, we have engaged a third-party alternative investment fund manager (“AIFM”) based in Luxembourg to replace, prior to Brexit, our U.K.-based AIFM for our funds and certain customized separate accounts for the EU. We are also in the process of obtaining a MiFID II license for one of our EU-based (non-U.K.) subsidiaries in the event that the MiFID II license currently held by our U.K.-based subsidiary is no

longer valid after Brexit. While we believe that taking these steps will help to ensure that we are able to continue to conduct business in the U.K. and the EU after Brexit, there remains some uncertainty as to the full extent to which our business could be adversely affected. See “Risk Factors—Risks Related to Our Business—Operational risks and data security breaches may disrupt our business, result in losses or limit our growth” and “Risk Factors—Risks Related to Our Business—Our international operations are subject to certain risks, which may affect our revenue” included in Part I, Item 1A of this Form 10-K for more information on the risks we face in connection with Brexit.

Employees

We currently have approximately 370 employees. We consider our relationship with our employees to be good and have not experienced interruptions of operations due to labor disagreements.

Available Information

Our website is located at www.hamiltonlane.com, and our investor relations website is located at <http://ir.hamiltonlane.com>. We are subject to the informational requirements of the Exchange Act and file or furnish reports, proxy statements and other information with the SEC. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, statements of changes in beneficial ownership and amendments to those reports are available for free on our investor relations website as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. The SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases as part of our investor relations website. Investors and others can receive notifications of new information posted on our investor relations website in real time by subscribing to email alerts. We also make certain corporate governance documents available on our investor relations website, including board committee charters and our code of conduct and ethics.

The contents of our websites are not incorporated by reference into this Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

Item 1A. Risk Factors

In addition to the other information set forth in this Form 10-K, you should carefully consider the following factors, which could materially affect our business, financial condition or results of operations. The risks described below are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may negatively affect our business, financial condition or results of operations.

Risks Related to Our Business

The historical performance of our investments should not be considered as indicative of the future results of our investments or our operations or any returns expected on an investment in our Class A common stock.

Past performance of our specialized funds and customized separate accounts or the investments that we recommend to our advisory clients is not necessarily indicative of future results or of the performance of our Class A common stock. An investment in our Class A common stock is not an investment in any of our specialized funds or customized separate accounts. In addition, the historical and potential future returns of specialized funds and customized separate accounts that we manage are not directly linked to returns on our Class A common stock. Therefore, you should not conclude that continued positive performance of our specialized funds, customized separate accounts or the investments that we recommend to our advisory clients will necessarily result in positive returns on an investment in our Class A common stock. However, poor performance of our specialized funds or customized separate accounts could cause a decline in our revenue, and could therefore have a negative effect on our performance and on returns on an investment in our Class A common stock.

The historical performance of our funds should not be considered indicative of the future performance of these funds or of any future funds we may raise, in part because:

- market conditions and investment opportunities during previous periods may have been significantly more favorable for generating positive performance than those we may experience in the future;
- the performance of our funds is generally calculated on the basis of NAV of the funds' investments, including unrealized gains, which may never be realized;
- our historical returns derive largely from the performance of our earlier funds, whereas future fund returns will depend increasingly on the performance of our newer funds or funds not yet formed;
- our newly established funds may generate lower returns during the period that they initially deploy their capital;
- competition continues to increase for investment opportunities resulting from the increased amount of capital invested in private markets alternatives and high liquidity in debt markets, and the increased competition for investments may reduce our returns in the future;
- the performance of particular funds also will be affected by risks of the industries and businesses in which they invest; and
- we may create new funds that reflect a different asset mix and new investment strategies, as well as a varied geographic and industry exposure, compared to our historical funds, and any such new funds could have different returns from our previous funds.

The success of our business depends on the identification and availability of suitable investment opportunities for our clients.

Our success largely depends on the identification and availability of suitable investment opportunities for our clients, and in particular the success of funds in which our specialized funds, customized separate accounts and advisory accounts invest. The availability of investment opportunities will be subject to market conditions and other factors outside of our control and the control of the private markets fund managers with which we invest. Past returns of our specialized funds, customized separate accounts and advisory accounts have benefited from investment opportunities and general market conditions that may not continue or reoccur, including favorable borrowing conditions in the debt markets, and there can be no assurance that our specialized funds, customized separate accounts, advisory accounts or the underlying funds in which we invest will be able to avail themselves of comparable opportunities and conditions. There can also be no assurance that the private markets funds we select will be able to identify sufficient attractive investment opportunities to meet their investment objectives. Further, the due diligence investigations we conduct before recommending investments to our clients may not uncover all facts relevant to the suitability of such opportunities. See “—The due diligence process that we undertake in connection with investments may not reveal all facts that may be relevant in connection with an investment” for more information on the risks we face in connection with the due diligence process.

Competition for access to investment funds and other investments we make for our clients is intense.

We seek to maintain excellent relationships with general partners and managers of investment funds, including those in which we have previously made investments for our clients and those in which we may in the future invest, as well as sponsors of investments that might provide co-investment opportunities in portfolio companies alongside the sponsoring fund manager. However, because of the number of investors seeking to gain access to investment funds and co-investment opportunities managed or sponsored by the top performing fund managers, there can be no assurance that we will be able to secure the opportunity to invest on behalf of our clients in all or a substantial portion of the investments we select, or that the size of the investment opportunities available to us will be as large as we would desire. Access to secondary investment opportunities is also highly competitive and is often controlled by a limited number of general partners, fund managers and intermediaries.

Customized separate account and advisory account fee revenue is not a long-term contracted source of revenue and is subject to intense competition.

Our revenue in any given period is dependent on the number of fee-paying clients in such period. Our customized separate account and advisory account business operates in a highly competitive environment where typically there are no long-term contracts. While clients of our customized separate account and advisory account businesses may have multi-year contracts, many of these contracts are terminable upon 30 to 90 days’ advance notice to us. We may lose clients as a result of the sale or merger of a client, a change in a client’s senior management, a client’s decision to transition to in-house asset management rather than partner with a third-party provider such as us, competition from other financial advisors and financial institutions and other causes. Moreover, a number of our contracts with state government-sponsored clients are secured through such government’s RFP process, and can be subject to periodic renewal. If multiple clients were to exercise their termination rights or fail to renew their existing contracts and we were unable to secure new clients, our customized separate account and advisory account fees would decline materially. A significant reduction in the number of fee-paying clients in any given period could reduce our revenue and materially and adversely affect our business, financial condition and results of operations.

Our failure to deal appropriately with conflicts of interest could damage our reputation and materially and adversely affect our business.

As we expand the scope of our business, we increasingly confront potential conflicts of interest relating to our advisory and investment management businesses. For example, we may recommend that various advisory clients invest in specialized funds managed by our investment management business. It is possible that actual, potential or perceived conflicts could give rise to investor dissatisfaction, litigation or regulatory enforcement actions. As a registered investment advisor, we owe our clients a fiduciary duty and are required to provide disinterested advice. Appropriately dealing with conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential or actual conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest could have a material adverse effect on our reputation, which could materially and adversely affect our business in a number of ways, including an inability to raise additional funds, attract new clients or retain existing clients.

We have obligations to investors in our specialized funds and customized separate accounts and may have obligations to other third parties that may conflict with your interests.

Our subsidiaries that serve as the general partners of or advisors to our specialized funds and customized separate accounts have fiduciary and contractual obligations to the investors in those funds and accounts, and some of our subsidiaries may have contractual duties to other third parties. As a result, we may take actions with respect to the allocation of investments among our specialized funds and customized separate accounts (including funds and accounts that have different fee structures), the purchase or sale of investments in our specialized funds and customized separate accounts, the structuring of investment transactions for those specialized funds and customized separate accounts, the advice we provide or other actions in order to comply with these fiduciary and contractual obligations. In addition, because our senior management and other professionals hold most of their economic interests through HLA, which is not subject to U.S. federal and state entity-level income taxes, and our Class A common stockholders hold their interests through Hamilton Lane Incorporated, which is subject to entity-level taxation as a corporation in the United States, conflicts relating to the selection and structuring of investments or other matters may arise between the members, on the one hand, and the Class A stockholders of Hamilton Lane Incorporated, on the other hand.

Our ability to retain our senior management team and attract additional qualified investment professionals is critical to our success.

Our success depends on our ability to retain our senior management team and to recruit additional qualified investment, sales and other professionals. However, we may not be successful in our efforts to retain our senior management team, as the market for investment professionals is extremely competitive. The individuals that comprise our senior management team possess substantial experience and expertise and, in many cases, have significant relationships with certain of our clients. Accordingly, the loss of any one of our senior management team could adversely affect certain client relationships or limit our ability to successfully execute our investment strategies, which, in turn, could have a material adverse effect on our business, financial condition and results of operations. In addition, the governing agreements of our specialized funds typically require the suspension of the commitment period if, depending on the fund, between two and eight designated members of our senior management team cease to devote sufficient professional time to or cease to be employed by HLA, often called a “key man event,” or in connection with certain other events. The occurrence of a key man event could also trigger an event of default under our term loans and affect investment periods under our limited partnership agreements. See “We may be unable to remain in compliance with the financial or other covenants contained in the Term Loan.” Any

change to our senior management team could materially and adversely affect our business, financial condition and results of operations.

We intend to expand our business and may enter into new lines of business, which may result in additional risks and uncertainties in our business.

We currently generate substantially all of our revenue from asset management and advisory services. However, we may grow our business by offering additional products and services and by entering into new lines of business. Introducing new types of investment structures, products and services could increase our operational costs and the complexities involved in managing such investments, including with respect to ensuring compliance with regulatory requirements and the terms of the investment. To the extent we enter into new lines of business, we will face numerous risks and uncertainties, including risks associated with the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, the required investment of capital and other resources and the loss of clients due to the perception that we are no longer focusing on our core business. In addition, we may from time to time explore opportunities to grow our business via acquisitions, partnerships, investments or other strategic transactions. There can be no assurance that we will successfully identify, negotiate or complete such transactions, that any completed transactions will produce favorable financial results or that we will be able to successfully integrate an acquired business with ours.

Entry into certain lines of business or the introduction of new types of products or services may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. In addition, certain aspects of our cost structure, such as costs for compensation, occupancy and equipment rentals, communication and information technology services, and depreciation and amortization will be largely fixed, and we may not be able to timely adjust these costs to match fluctuations in revenue related to growing our business or entering into new lines of business. If a new business generates insufficient revenue or if we are unable to efficiently manage our expanded operations, our business, financial condition and results of operations could be materially and adversely affected.

Our indebtedness may expose us to substantial risks.

We have a Term Loan and Security Agreement (the “Term Loan Agreement”) and a Revolving Loan and Security Agreement (the “Revolving Loan Agreement” and, together with the Term Loan Agreement, the “Loan Agreements”) with First Republic Bank (“First Republic”). The Term Loan Agreement provides for a term loan facility in an aggregate principal amount of \$75 million and also contains an accordion feature that allows us to increase the commitment under the facility by up to \$25 million under certain conditions (the “Term Loan Facility”).

We expect to continue to utilize debt to finance our operations, which will expose us to the typical risks associated with the use of leverage. An increase in leverage could make it more difficult for us to withstand adverse economic conditions or business plan variances, to take advantage of new business opportunities, or to make necessary capital expenditures. Any portion of our cash flow required for debt service would not be available for our operations, distributions, dividends or other purposes. Any substantial decrease in net operating cash flows or any substantial increase in expenses could make it difficult for us to meet our debt service requirements or force us to modify our operations. Our level of indebtedness may make us more vulnerable to economic downturns and reduce our flexibility in responding to changing business, regulatory and economic conditions, which could materially and adversely affect our business, financial condition and results of operations.

We may be unable to remain in compliance with the financial or other covenants contained in the Loan Agreements.

The Loan Agreements contain financial and other covenants that impose requirements on us and limit our ability to engage in certain transactions or activities. There can be no assurance that we will be able to maintain leverage levels in compliance with the financial covenants included in the Loan Agreements. Any failure to comply with these financial and other covenants, if not waived, would cause a default or event of default under the Loan Agreements. If such a failure were to occur, there can be no assurance that we would be able to obtain a waiver, refinance or obtain a replacement for such facility on favorable terms, or at all, which could materially and adversely affect our business, financial condition and results of operations.

Restrictive covenants in agreements and instruments governing our debt may adversely affect our ability to operate our business.

The terms of certain of our indebtedness, including pursuant to the Loan Agreements, contain, and any future debt instruments may contain, various provisions that limit our and our subsidiaries' ability to, among other things:

- incur additional debt;
- provide guarantees in respect of obligations of other persons;
- make loans, advances and investments;
- make certain payments in respect of equity interests, including, among others, the payment of dividends and other distributions, redemptions and similar payments, payments in respect of warrants, options and other rights, and payments in respect of subordinated indebtedness;
- enter into transactions with investment funds and affiliates;
- create or incur liens;
- enter into negative pledges;
- sell all or any part of the business, assets or property, or otherwise dispose of assets;
- make acquisitions or consolidate or merge with other persons;
- enter into sale-leaseback transactions;
- change the nature of our business;
- change our fiscal year;
- make certain modifications to organizational documents or certain material contracts;
- make certain modifications to certain other debt documents; and
- enter into certain agreements, including agreements limiting the payment of dividends or other distributions in respect of equity interests, the repayment of indebtedness, the making of loans or advances, or the transfer of assets.

These restrictions may limit our flexibility in operating our business. Furthermore, any violation of these or other covenants in the Loan Agreements could result in a default or event of default. Our obligations under the Loan Agreements are secured by substantially all of our assets. In the case of an event of default, creditors may exercise rights and remedies, including the rights and remedies of a secured party, under such agreements and applicable law. See “—We may be unable to remain in compliance with the financial or other covenants contained in the Loan Agreements.”

Dependence on leverage by certain funds and portfolio companies subjects us to volatility and contractions in the debt financing markets and could adversely affect the ability of our specialized funds and customized separate accounts to achieve attractive rates of return on those investments.

Certain of the specialized funds we manage, the funds in which we invest and portfolio companies within our funds and customized separate accounts currently rely on leverage. If our specialized funds or the companies in which our specialized funds or customized separate accounts invest raise capital in the structured credit, leveraged loan and high yield bond markets, the results of their operations may suffer if such markets experience dislocations, contractions or volatility. Any such events could adversely impact the availability of credit to businesses generally, the cost or terms on which lenders are willing to lend, or the strength of the overall economy.

The absence of available sources of sufficient debt financing for extended periods of time or an increase in either the general levels of interest rates or in the risk spread demanded by sources of indebtedness would make it more expensive to finance those investments. Certain investments may also be financed through fund-level debt facilities, which may or may not be available for refinancing at the end of their respective terms. Finally, changes to the tax law contained in the U.S. federal income tax reform legislation known as the Tax Cuts and Jobs Act, which was signed into law on December 22, 2017 (the “Tax Act”), limit the deductibility of interest expense on indebtedness used to finance our specialized funds’ investments, thereby reducing the after-tax rates of return on the affected investments and making it more costly to use debt financing, which may have an adverse impact on our business, results of operations and financial condition. See “—Increased government regulation, compliance failures and changes in law or regulation could adversely affect us.”

Similarly, private markets fund portfolio companies regularly utilize the corporate debt markets to obtain additional financing for their operations. The leveraged capital structure of such businesses increases the exposure of the funds’ portfolio companies to adverse economic factors such as rising interest rates, downturns in the economy or deterioration in the condition of such business or its industry. Any adverse impact caused by the use of leverage by portfolio companies in which we directly or indirectly invest could in turn adversely affect the returns of our specialized funds, customized separate accounts and advisory accounts.

Defaults by clients and third-party investors in certain of our specialized funds could adversely affect that fund’s operations and performance.

Our business is exposed to the risk that clients that owe us money may not pay us. If investors in our specialized funds and certain customized separate accounts default on their obligations to us, there may be adverse consequences on the investment process, and we could incur losses and be unable to meet underlying capital calls. For example, investors in most of our specialized funds make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling and honoring their commitments when we call capital from them for those funds to consummate investments and otherwise pay their obligations when due. Any investor that did not fund a capital call would be subject to several possible penalties, including having a meaningful amount of its existing investment forfeited in that fund. However, the impact of the penalty is

directly correlated to the amount of capital previously invested by the investor in the fund. For instance, if an investor has invested little or no capital early in the life of the fund, then the forfeiture penalty may not be as meaningful. A failure of investors to honor a significant amount of capital calls could have a material adverse effect on our business, financial condition and results of operations.

Our failure to comply with investment guidelines set by our clients could result in damage awards against us or a reduction in AUM, either of which would cause our earnings to decline and adversely affect our business.

When clients retain us to manage assets on their behalf, they specify certain guidelines regarding investment allocation and strategy that we are required to observe in the management of their portfolios. Our failure to comply with these guidelines and other limitations could result in clients terminating their investment management agreement with us, as these agreements generally are terminable without cause on 30 to 90 days' notice. Clients could also sue us for breach of contract and seek to recover damages from us. In addition, such guidelines may restrict our ability to pursue certain allocations and strategies on behalf of our clients that we believe are economically desirable, which could similarly result in losses to a client account or termination of the account and a corresponding reduction in AUM. Even if we comply with all applicable investment guidelines, a client may be dissatisfied with its investment performance or our services or fees, and may terminate their customized separate accounts or advisory accounts or be unwilling to commit new capital to our specialized funds, customized separate accounts or advisory accounts. Any of these events could cause our earnings to decline and materially and adversely affect our business, financial condition and results of operations.

Misconduct by our employees, advisors or third-party service providers could harm us by impairing our ability to attract and retain clients and subjecting us to significant legal liability and reputational harm.

There is a risk that our employees, advisors or third-party service providers could engage in misconduct that adversely affects our business. We are subject to a number of obligations and standards arising from our advisory and investment management businesses and our discretionary authority over the assets we manage. The violation of these obligations and standards by any of our employees, advisors or third-party service providers would adversely affect our clients and us. Our business often requires that we deal with confidential matters of great significance to companies and funds in which we may invest for our clients. If our employees, advisors or third-party service providers were to improperly use or disclose confidential information, we could be subject to legal or regulatory action and suffer serious harm to our reputation, financial position and current and future business relationships. It is not always possible to detect or deter such misconduct, and the extensive precautions we take that seek to detect and prevent this activity may not be effective in all cases. If one of our employees, advisors or third-party service providers were to engage in misconduct or were to be accused of such misconduct, our business and our reputation could be materially and adversely affected. See “—Increased government regulation, compliance failures and changes in law or regulation could adversely affect us.”

If the investments we make on behalf of our specialized funds or customized separate accounts perform poorly, we may suffer a decline in our investment management revenue and earnings, and our ability to raise capital for future specialized funds and customized separate accounts may be materially and adversely affected.

Our revenue from our investment management business is derived from fees earned for our management of our specialized funds, customized separate accounts and advisory accounts, incentive fees, or carried interest, with respect to certain of our specialized funds and customized separate accounts, and monitoring and reporting fees. In the event that our specialized funds, customized separate accounts

or individual investments perform poorly, our revenues and earnings derived from incentive fees will decline and make it more difficult for us to raise capital for new specialized funds or gain new customized separate account clients in the future. In addition, if carried interest that was previously distributed to us exceeds the amounts to which we are ultimately entitled, we may be required to repay that amount under a “clawback” obligation. If we are unable to raise or are required to repay capital, our business, financial condition and results of operations would be materially and adversely affected.

Valuation methodologies for certain assets in our specialized funds and customized separate accounts can be significantly subjective, and the values of assets established pursuant to such methodologies may never be realized, which could result in significant losses for our specialized funds and customized separate accounts.

There are no readily ascertainable market prices for a large number of the investments in our specialized funds, customized separate accounts, advisory accounts or the funds in which we invest. The value of the fund investments of our specialized funds and customized separate accounts is determined periodically by us based on the fair value of such investments as reported by the underlying fund managers. Our valuation of the funds in which we invest is largely dependent upon the processes employed by the managers of those funds. The fair value of investments is determined using a number of methodologies described in the particular funds’ valuation policies. These policies are based on a number of factors, including the nature of the investment, the expected cash flows from the investment, the length of time the investment has been held, restrictions on transfer and other recognized valuation methodologies. The value of the co-investments and credit investments of our specialized funds and customized separate accounts is determined periodically by us using the present value and other subjective valuation techniques. These may include references to market multiples, valuations for comparable companies, public market or private market transactions, subsequent developments concerning the companies to which the securities relate, results of operations, financial condition, cash flows, and projections of such companies provided to the general partner and such other factors as the general partner may deem relevant. The methodologies we use in valuing individual investments are based on a variety of estimates and assumptions specific to the particular investments, and actual results related to the investment may vary materially as a result of the inaccuracy of such assumptions or estimates. In addition, because the illiquid investments held by our specialized funds, customized separate accounts, advisory accounts and the funds in which we invest may be in industries or sectors that are unstable, in distress, or undergoing some uncertainty, such investments are subject to rapid changes in value caused by sudden company-specific or industry-wide developments.

Because there is significant uncertainty in the valuation of, or in the stability of the value of, illiquid investments, the fair values of such investments as reflected in a fund’s NAV do not necessarily reflect the prices that would actually be obtained if such investments were sold. Realizations at values significantly lower than the values at which investments have been reflected in fund NAVs could result in losses for the applicable fund and the loss of potential incentive fees by the fund’s manager and us. Also, a situation in which asset values turn out to be materially different from values reflected in fund NAVs, whether due to misinformation or otherwise, could cause investors to lose confidence in us and may, in turn, result in difficulties in our ability to raise additional capital, retain clients or attract new clients. Further, in some cases, we engage third-party valuation agents to assist us with the valuations. It is possible that a material fact related to the target of the valuation might be inadvertently omitted from our communications with them, resulting in an inaccurate valuation.

Further, the SEC has highlighted valuation practices as one of its areas of focus in investment advisor examinations and has instituted enforcement actions against advisors for misleading investors about valuation. If the SEC were to investigate and find errors in our methodologies or procedures, we and/or

members of our management could be subject to penalties and fines, which could harm our reputation and our business, financial condition and results of operations could be materially and adversely affected.

Our investment management activities may involve investments in relatively high-risk, illiquid assets, and we and our clients may lose some or all of the amounts invested in these activities or fail to realize any profits from these activities for a considerable period of time.

The investments made by our specialized funds and customized separate accounts and recommended by our advisory services may include high-risk, illiquid assets. We have made and expect to continue to make principal investments alongside our investors, as the general partner, in our existing private markets funds and certain customized separate accounts and in any new private markets funds we may establish in the future. The private markets funds in which we invest capital generally invest in securities that are not publicly traded. Even if such securities are publicly traded, many of these funds may be prohibited by contract or applicable securities laws from selling such securities for a period of time. Such funds will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. Accordingly, the private markets funds in which we invest our clients' capital may not be able to sell securities when they desire and therefore may not be able to realize the full value of such securities. The ability of private markets funds to dispose of investments is dependent in part on the public equity and debt markets, to the extent that the ability to dispose of an investment may depend upon the ability to complete an IPO of the portfolio company in which such investment is held or the ability of a prospective buyer of the portfolio company to raise debt financing to fund its purchase. Furthermore, large holdings of publicly traded equity securities can often be disposed of only over a substantial period of time, exposing the investment returns to risks of downward movement in market prices during the disposition period. Contributing capital to these funds is risky, and we may lose some or the entire amount of our specialized funds' and our clients' investments.

The portfolio companies in which private markets funds have invested or may invest will sometimes involve a high degree of business and financial risk. These companies may be in an early stage of development, may not have a proven operating history, may be operating at a loss or have significant variations in operating results, may be engaged in a rapidly changing business with products subject to a substantial risk of obsolescence, may be subject to extensive regulatory oversight, may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position, may have a high level of leverage, or may otherwise have a weak financial condition. See “— Dependence on leverage by certain funds and portfolio companies subjects us to volatility and contractions in the debt financing markets and could adversely affect the ability of our specialized funds and customized separate accounts to achieve attractive rates of return on those investments.”

In addition, these portfolio companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing, and other capabilities, and a larger number of qualified managerial and technical personnel. Portfolio companies in non-U.S. jurisdictions may be subject to additional risks, including changes in currency exchange rates, exchange control regulations, risks associated with different types (and lower quality) of available information, expropriation or confiscatory taxation and adverse political developments. In addition, during periods of difficult market conditions or slowdowns in a particular investment category, industry or region, portfolio companies may experience decreased revenues, financial losses, difficulty in obtaining access to financing and increased costs. During these periods, these companies may also have difficulty in expanding their businesses and operations and may be unable to pay their expenses as they become due. A general market downturn or a specific market dislocation may result in lower investment returns for the private markets funds or portfolio companies in which our specialized funds and

customized separate accounts invest, which consequently would materially and adversely affect investment returns for our specialized funds and customized separate accounts. Furthermore, if the portfolio companies default on their indebtedness, or otherwise seek or are forced to restructure their obligations or declare bankruptcy, we could lose some or all of our investment and suffer reputational harm.

We may pursue investment opportunities that involve business, regulatory, legal or other complexities.

We may pursue investment opportunities that have unusually complex business, regulatory and/or legal aspects to them. This complexity presents risks, as such transactions can be more difficult, expensive and time-consuming to finance and execute, it can be more difficult to manage or realize value from the assets acquired in such transactions and such transactions sometimes involve a higher level of regulatory scrutiny or a greater risk of contingent liabilities. Any of these risks could materially and adversely affect our business, financial condition and results of operations.

Our specialized funds and customized separate accounts may face risks relating to undiversified investments.

We cannot give assurance as to the degree of diversification that will be achieved in any of our specialized funds or customized separate accounts. Difficult market conditions or slowdowns affecting a particular asset class, geographic region or other category of investment could have a significant adverse impact on a given specialized fund or customized separate account if its investments are concentrated in that area, which would result in lower investment returns. Accordingly, a lack of diversification on the part of a specialized fund or customized separate account could adversely affect its investment performance and, as a result, our business, financial condition and results of operations.

Our specialized funds and customized separate accounts make investments in funds and companies that we do not control.

Investments by most of our specialized funds and customized separate accounts will include debt instruments and equity securities of companies that we do not control. Our specialized funds and customized separate accounts may invest through co-investment arrangements or acquire minority equity interests and may also dispose of a portion of their equity investments in portfolio companies over time in a manner that results in their retaining a minority investment. Consequently, the performance of our specialized funds and customized separate accounts will depend significantly on the investment and other decisions made by third parties, which could have a material adverse effect on the returns achieved by our specialized funds or customized separate accounts. Portfolio companies in which the investment is made may make business, financial or management decisions with which we do not agree. In addition, the majority stakeholders or our management may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the values of our investments and the investments we have made on behalf of clients could decrease and our financial condition, results of operations and cash flow could suffer as a result.

Investments by our specialized funds, customized separate accounts and advisory accounts may in many cases rank junior to investments made by other investors.

In many cases, the companies in which our specialized funds or customized separate accounts invest have indebtedness or equity securities, or may be permitted to incur indebtedness or to issue equity securities, that rank senior to our clients' investments in our specialized funds, customized separate accounts or advisory accounts. By their terms, these instruments may provide that their holders are entitled to receive payments of dividends, interest or principal on or before the dates on which payments

are to be made in respect of our clients' investments. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which one or more of our specialized funds, customized separate accounts or advisory accounts hold an investment, holders of securities ranking senior to our clients' investments would typically be entitled to receive payment in full before distributions could be made in respect of our clients' investments. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of our clients' investments. To the extent that any assets remain, holders of claims that rank equally with our clients' investments would be entitled to share on an equal and ratable basis in distributions that are made out of those assets. Also, during periods of financial distress or following an insolvency, our ability to influence a company's affairs and to take actions to protect investments by our specialized funds, customized separate accounts or advisory accounts may be substantially less than that of those holding senior interests.

The substantial growth of our business in recent years may be difficult to sustain, as it may place significant demands on our resources and employees and may increase our expenses.

The substantial growth of our business has placed, and if it continues, will continue to place, significant demands on our infrastructure, our investment team and other employees, and will increase our expenses. In addition, we are required to develop continuously our infrastructure in response to the increasingly complex investment management industry and increasing sophistication of investors. Legal and regulatory developments also contribute to the level of our expenses. The future growth of our business will depend, among other things, on our ability to maintain the appropriate infrastructure and staffing levels to sufficiently address our growth and may require us to incur significant additional expenses and commit additional senior management and operational resources. We may face significant challenges in maintaining adequate financial and operational controls as well as implementing new or updated information and financial systems and procedures. Training, managing and appropriately sizing our work force and other components of our business on a timely and cost-effective basis may also pose challenges. In addition, our efforts to retain or attract qualified investment professionals may result in significant additional expenses. There can be no assurance that we will be able to manage our growing business effectively or that we will be able to continue to grow, and any failure to do so could adversely affect our ability to generate revenue and control our expenses.

We may not be able to maintain our desired fee structure as a result of industry pressure from private markets investors to reduce fees, which could have a material adverse effect on our profit margins and results of operations.

We may not be able to maintain our current fee structure as a result of industry pressure from private markets investors to reduce fees. In order to maintain our desired fee structure in a competitive environment, we must be able to continue to provide clients with investment returns and service that incentivize our investors to pay our desired fee rates. We cannot assure you that we will succeed in providing investment returns and service that will allow us to maintain our desired fee structure. Fee reductions on existing or future new business could have a material adverse effect on our profit margins and results of operations.

Our risk management strategies and procedures may leave us exposed to unidentified or unanticipated risks.

Risk management applies to our investment management operations as well as to the investments we make for our specialized funds and customized separate accounts. We have developed and continue to update strategies and procedures specific to our business for managing risks, which include market risk, liquidity risk, operational risk and reputational risk. Management of these risks can be very complex.

These strategies and procedures may fail under some circumstances, particularly if we are confronted with risks that we have underestimated or not identified. In addition, some of our methods for managing the risks related to our clients' investments are based upon our analysis of historical private markets behavior. Statistical techniques are applied to these observations in order to arrive at quantifications of some of our risk exposures. Historical analysis of private markets returns requires reliance on valuations performed by fund managers, which may not be reliable measures of current valuations. These statistical methods may not accurately quantify our risk exposure if circumstances arise that were not observed in our historical data. In particular, as we enter new lines of business, our historical data may be incomplete. Failure of our risk management techniques could materially and adversely affect our business, financial condition and results of operations, including our right to receive incentive fees.

The due diligence process that we undertake in connection with investments may not reveal all facts that may be relevant in connection with an investment.

Before making or recommending investments for our clients, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, technological, environmental, social, governance and legal and regulatory issues. Outside consultants, legal advisors and accountants may be involved in the due diligence process in varying degrees depending on the type of investment and the parties involved. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the target of the investment and, in some circumstances, third-party investigations, and such an investigation will not necessarily result in the investment ultimately being successful.

Moreover, the due diligence investigation that we will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts (including bribery, fraud or other illegal activities) or risks that are necessary or helpful in evaluating such investment opportunity. Instances of bribery, fraud, accounting irregularities and other improper, illegal or corrupt practices can be difficult to detect and may be more widespread in certain jurisdictions. Our specialized funds, customized separate accounts or advisory accounts may invest in emerging market countries that may not have established laws and regulations that are as stringent as in more developed nations, or where existing laws and regulations may not be consistently enforced. Due diligence on investment opportunities in these jurisdictions is frequently more complicated because consistent and uniform commercial practices in such locations may not have developed, and bribery, fraud, accounting irregularities and corrupt practices can be especially difficult to detect in such locations. Such misconduct may undermine our due diligence efforts with respect to such companies and could negatively affect the valuations of investments in such companies. Further, we may not identify or foresee future developments that could have a material adverse effect on an investment, such as misconduct by personnel at companies in which our specialized funds, customized separate accounts or advisory accounts invest. Financial fraud or other deceptive practices, or failures by personnel at such companies to comply with anti-bribery, trade sanctions or other legal and regulatory requirements, could cause significant legal, reputational and business harm to us.

In addition, a substantial portion of our specialized funds are funds-of-funds, and therefore we are dependent on the due diligence investigation of the general partner or co-investment partner leading such investment. We have little or no control over their due diligence process, and any shortcomings in their due diligence could be reflected in the performance of the investment we make with them on behalf of our clients. Poor investment performance could lead clients to terminate their agreements with us and/or result in negative reputational effects, either of which could materially and adversely affect our business, financial condition and results of operations.

Restrictions on our ability to collect and analyze data regarding our clients' investments could adversely affect our business.

Our database of private markets investments includes funds and direct/co-investments that we monitor and report on for our specialized funds, customized separate accounts and advisory accounts. We rely on our database to provide regular reports to our clients, to research developments and trends in private markets and to support our investment processes. We depend on the continuation of our relationships with the general partners and sponsors of the underlying funds and investments in order to maintain current data on these investments and private markets activity. The termination of such relationships or the imposition of restrictions on our ability to use the data we obtain for our reporting and monitoring services could adversely affect our business, financial condition and results of operations.

Operational risks and data security breaches may disrupt our business, result in losses or limit our growth.

We rely heavily on our financial, accounting, compliance, monitoring, reporting and other data processing systems. Any failure or interruption of these systems, including the loss of data, whether caused by fire, other natural disaster, power or telecommunications failure, computer viruses, act of terrorism or war or otherwise, could result in a disruption of our business, financial loss, liability to clients, regulatory intervention or reputational damage, and thus materially and adversely affect our business. Although we have back-up systems in place, including back-up data storage, our back-up procedures and capabilities in the event of a failure or interruption may not be adequate. In recent years, we have substantially upgraded and expanded the capabilities of our data processing systems and other operating technology, and we expect that we will need to continue to upgrade and expand these capabilities in the future to avoid disruption of, or constraints on, our operations. We may incur significant costs to further upgrade our data processing systems and other operating technology in the future.

In addition, we are dependent on the effectiveness of our information security policies, procedures and capabilities designed to protect our computer, network and telecommunications systems and the data such systems contain or transmit. Attacks on our information technology infrastructure could enable the attackers to gain access to our proprietary information, destroy data or disable, degrade or sabotage our systems. Attacks could range from those common to businesses generally to those that are more advanced and persistent, which may target us because, as an alternative investment management firm, we hold a significant amount of confidential and sensitive information about our clients and potential investments.

Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, theft, misuse, computer viruses or other malicious code, and other events that could have a security impact. We and our employees have been and expect to continue to be the target of “phishing” attacks, and the subject of impersonations and fraudulent requests for money, and other forms of activities. The costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means. In addition, cyber-security has become a top priority for regulators around the world. Many jurisdictions in which we operate have laws and regulations relating to data privacy, cyber-security and protection of personal information, including the General Data Protection Regulation (“GDPR”) in the EU that became effective in May 2018. See “— Increased government regulation, compliance failures and changes in law or regulation could adversely affect us.” Some jurisdictions have also enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data. Breaches in security could potentially jeopardize our, our employees’ or our clients’ or counterparties’ confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our employees’, our clients’, our counterparties’ or third parties’ operations, which could result in material financial losses, increased costs, disruption of

our business, liability to clients and other counterparties, regulatory intervention or reputational damage, which, in turn, could cause a decline in our earnings and/or stock price. Furthermore, if we experience a cyber-security incident, it could result in regulatory investigations and material penalties, which could lead to negative publicity and may cause our clients to lose confidence in the effectiveness of our security measures. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.

Finally, we rely on third-party service providers for certain aspects of our business, including for certain information systems, technology, administration, payroll, tax, legal and compliance matters. Their inability or failure to perform as expected or in accordance with the terms of their engagements with us could have a material adverse effect on the operation of our business. These third-party service providers could also experience any of the above cyber-security threats, fraudulent activities or security breaches, and as a result, unauthorized individuals could improperly gain access to our confidential data. Any interruption or deterioration in the performance of these third parties, cyber-security incidents involving these third parties or failures of their information systems and technology could impair the quality of our funds' operations, affect our reputation and adversely affect our business, financial condition and results of operations.

We may face damage to our professional reputation and legal liability if our services are not regarded as satisfactory or for other reasons.

As a financial services firm, we depend to a large extent on our relationships with our clients and our reputation for integrity and high-caliber professional services to attract and retain clients. As a result, if a client is not satisfied with our services, such dissatisfaction may be more damaging to our business than to other types of businesses.

In recent years, the volume of claims and amount of damages claimed in litigation and regulatory proceedings against financial advisors has been increasing. Our asset management and advisory activities may subject us to the risk of significant legal liabilities to our clients and third parties, including our clients' stockholders or beneficiaries, under securities or other laws and regulations for materially false or misleading statements made in connection with securities and other transactions. In our investment management business, we make investment decisions on behalf of our clients that could result in substantial losses. Any such losses also may subject us to the risk of legal and regulatory liabilities or actions alleging negligent misconduct, breach of fiduciary duty or breach of contract. These risks often may be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. We may incur significant legal expenses in defending litigation. In addition, negative publicity and press speculation about us, our investment activities or the private markets in general, whether or not based in truth, or litigation or regulatory action against us or any third-party managers recommended by us or involving us may tarnish our reputation and harm our ability to attract and retain clients. Substantial legal or regulatory liability could materially and adversely affect our business, financial condition or results of operations or cause significant reputational harm to us, which could seriously harm our business.

Our distribution management business depends on an active market for public offerings and our ability to deliver expected investment returns.

Our distribution management business depends on active capital markets. If public offering activity is limited, there will be reduced in-kind distributions and reduced volume for our distribution management services. In addition, if our clients do not realize their expected investment returns on in-kind distributions, the performance of our distribution management business could be materially and adversely affected.

Our international operations are subject to certain risks, which may affect our revenue.

We intend to grow our non-U.S. business, including growth into new regions with which we have less familiarity and experience, and this growth is important to our overall success. In addition, many of our larger clients are non-U.S. entities seeking to invest in U.S. funds and operating companies. Our international operations carry special financial and business risks, which could include the following:

- greater difficulties in managing and staffing foreign operations;
- fluctuations in foreign currency exchange rates that could adversely affect our results;
- unexpected changes in trading policies, regulatory requirements, tariffs and other barriers;
- longer transaction cycles;
- higher operating costs;
- local labor conditions and regulations;
- adverse consequences or restrictions on the repatriation of earnings;
- potentially adverse tax consequences, such as trapped foreign losses;
- less stable political and economic environments;
- terrorism, political hostilities, war and other civil disturbances or other catastrophic events that reduce business activity;
- cultural and language barriers and the need to adopt different business practices in different geographic areas; and
- difficulty collecting fees and, if necessary, enforcing judgments.

As part of our day-to-day operations outside the United States, we are required to create compensation programs, employment policies, compliance policies and procedures and other administrative programs that comply with the laws of multiple countries. We also must communicate and monitor standards and directives across our global operations. Our failure to successfully manage and grow our geographically diverse operations could impair our ability to react quickly to changing business and market conditions and to enforce compliance with non-U.S. standards and procedures.

A significant amount of the investments of our specialized funds, customized separate accounts and advisory accounts include private markets funds that are located outside the United States or that invest in portfolio companies located outside the United States. Such non-U.S. investments involve certain factors not typically associated with U.S. investments, including risks related to (i) currency exchange matters, including exchange rate fluctuations between the U.S. dollar and the foreign currency in which the investments are denominated, and costs associated with conversion of investment proceeds and income from one currency to another, (ii) differences between the U.S. and foreign capital markets, including the absence of uniform accounting, auditing, financial reporting and legal standards, practices and disclosure requirements and less government supervision and regulation, (iii) certain economic, social and political risks, including exchange control regulations and restrictions on foreign investments and repatriation of capital, the risks of political, economic or social instability, and (iv) the possible imposition of foreign taxes with respect to such investments or confiscatory taxation. These risks could adversely affect the performance of our specialized funds, customized separate accounts and advisory accounts that are

invested in securities of non-U.S. companies, which would adversely affect our business, financial condition and results of operations.

Any payment of distributions, loans or advances to and from our subsidiaries could be subject to restrictions on or taxation of dividends or repatriation of earnings under applicable local law, monetary transfer restrictions, foreign currency exchange regulations in the jurisdictions in which our subsidiaries operate or other restrictions imposed by current or future agreements, including debt instruments, to which our non-U.S. subsidiaries may be a party. Our business, financial condition and results of operations could be adversely impacted, possibly materially, if we are unable to successfully manage these and other risks of international operations in a volatile environment. If our international business increases relative to our total business, these factors could have a more pronounced effect on our operating results or growth prospects.

In addition, our business may be adversely affected by Brexit due to, among other things, disruption of the free movement of goods, services, capital, and people between the U.K. and the EU as well as potential changes to the legal and regulatory environment in the region. Following Brexit, our subsidiaries that are authorized and regulated by the U.K. Financial Conduct Authority may no longer be able to avail themselves of passporting rights under certain EU directives (such as, the AIFMD and MiFID II) to provide services and perform activities in the U.K. and other parts of Europe. This may have an adverse impact on our results including the cost of, risk to, manner of conducting, and location of, our European business and our ability to hire and retain key staff in Europe. This may also adversely impact the markets in which we operate; the funds we manage or advise; our fund investors and our ability to raise capital from them; and ultimately the returns that may be achieved. While we have taken measures designed to allow us to continue to conduct our business in both the U.K. and the EU, Brexit may increase our cost of conducting business, interfere with our ability to market our products and provide our services and generally make it more difficult for us to pursue our objectives in the region.

Brexit could also lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which EU laws to replace or replicate. Compliance with any such new laws and regulations in the U.K. may be difficult and/or costly to implement and could adversely impact our ability to raise capital from investors in the U.K. and the EU, which could materially reduce our revenue, earnings and cash flow and adversely affect our financial prospects and condition.

Our inability to obtain adequate insurance could subject us to additional risk of loss or additional expenses.

We may not be able to obtain or maintain sufficient insurance on commercially reasonable terms or with adequate coverage levels against potential liabilities we may face, which could have a material adverse affect on our business. We may face a risk of loss from a variety of claims, including those related to contracts, fraud, compliance with laws and various other issues, whether or not such claims are valid. Insurance and other safeguards might only partially reimburse us for our losses, if at all, and if a claim is successful and exceeds or is not covered by our insurance policies, we may be required to pay a substantial amount in respect of such successful claim. Certain losses of a catastrophic nature, such as wars, earthquakes, typhoons, terrorist attacks or other similar events, may be uninsurable or may only be insurable at rates that are so high that maintaining coverage would cause an adverse impact on our business, in which case we may choose not to maintain such coverage.

Risks Related to Our Industry

The investment management business is intensely competitive.

The investment management business is intensely competitive, with competition based on a variety of factors, including investment performance, the quality of service provided to clients, brand recognition and business reputation. Our investment management business competes with a variety of traditional and alternative asset managers, commercial banks, investment banks and other financial institutions. A number of factors serve to increase our competitive risks:

- some of our competitors have more relevant experience, greater financial and other resources and more personnel than we do;
- there are relatively few barriers to entry impeding new asset management firms, including a relatively low cost of entering these lines of business, and the successful efforts of new entrants into our various lines of business have resulted in increased competition;
- if, as we expect, allocation of assets to alternative investment strategies continues to increase, there will continue to be increased competition for alternative investments and access to fund general partners and managers;
- some of our competitors may have a lower cost of capital and access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to our specialized funds, particularly funds that directly use leverage or rely on debt financing of their portfolio companies to generate superior investment returns;
- developments in financial technology (or fintech), such as a distributed ledger technology (or blockchain), have the potential to disrupt the financial industry and change the way financial institutions, as well as investment managers, do business, and could exacerbate these competitive pressures;
- certain investors may prefer to invest with private partnerships; and
- other industry participants will from time to time seek to recruit our investment professionals and other employees away from us.

This competitive pressure could adversely affect our ability to make successful investments and restrict our ability to raise future funds, either of which would materially and adversely impact our business, financial condition and results of operations.

Difficult market conditions can adversely affect our business by reducing the market value of the assets we manage or causing our customized separate account clients to reduce their investments in private markets.

Our business is materially affected by conditions in the global financial markets and economic conditions or events throughout the world that are outside our control, including rising interest rates or inflation, the availability of credit, changes in laws, trade barriers, terrorism or political uncertainty. Recently, markets have been affected by increases in interest rates in the United States, uncertainty about the consequences of the United States and other governments withdrawing monetary stimulus measures, imposition of trade barriers, ongoing trade negotiations with major U.S. trading partners and changes in the U.S. tax regulations. These factors may affect the level and volatility of securities prices and the

liquidity and the value of investments, and we may not be able to or may choose not to manage our exposure to them.

Market deterioration could cause us, the specialized funds and customized separate accounts we manage or the funds in which they invest to experience tightening of liquidity, reduced earnings and cash flow, and impairment charges, as well as challenges in raising additional capital, obtaining investment financing and making investments on attractive terms. These market conditions can also have an impact on our ability and the ability of funds in which we and our clients invest to liquidate positions in a timely and efficient manner. More costly and restrictive financing may also adversely impact the returns of our co-investments in leveraged buyout transactions and, therefore, adversely affect the results of operations and financial condition of our co-investment funds.

Our business could generate lower revenue in a general economic downturn or a tightening of global credit markets. While our revenue continued to grow during the economic downturn beginning in 2008, we may not experience a similar outcome during future downturns. A general economic downturn or tightening of global credit markets may result in reduced opportunities to find suitable investments and make it more difficult for us, or for the funds in which we and our clients invest, to exit and realize value from existing investments, potentially resulting in a decline in the value of the investments held in our clients' portfolios. Such a decline could cause our revenue and net income to decline by causing some of our clients to reduce their investments in private markets in favor of investments they perceive as offering greater opportunity or lower risk, which would result in lower fees being paid to us.

A general economic downturn or a tightening of global credit markets may also reduce the commitments our clients are able to devote to alternative investments generally and make it more difficult for the funds in which we invest to obtain funding for additional investments at attractive rates, which would further reduce our profitability.

In addition, higher interest rates may make it more difficult to obtain financing for new investments, refinance existing investments or liquidate debt investments, which can lead to reduced investment returns and missed investment opportunities. Consequently, such increases in interest rates may have an adverse impact on our business.

Our profitability may also be adversely affected by our fixed costs and the possibility that we would be unable to scale back other costs within a time frame sufficient to match any decreases in revenue relating to changes in market and economic conditions. If our revenue declines without a commensurate reduction in our expenses, our net income will be reduced. Accordingly, difficult market conditions could materially and adversely affect our business, financial condition and results of operations.

Increased government regulation, compliance failures and changes in law or regulation could adversely affect us.

Governmental authorities around the world in recent years have called for or implemented financial system and participant regulatory reform in reaction to volatility and disruption in the global financial markets, financial institution failures and financial frauds. Such reform includes, among other things, additional regulation of investment funds, as well as their managers and activities, including compliance, risk management and anti-money laundering procedures; restrictions on specific types of investments and the provision and use of leverage; implementation of capital requirements; limitations on compensation to managers; and books and records, reporting and disclosure requirements. We cannot predict with certainty the impact on us, our specialized funds or customized separate accounts, or on private markets funds generally, of any such reforms. Any of these regulatory reform measures could have an adverse effect on our specialized funds' and customized separate accounts' investment strategies or our business model. We may incur significant expense in order to comply with such reform measures.

We could also be adversely affected by changes in applicable tax laws, regulations, or administrative interpretations thereof. For example, the Tax Act, which resulted in fundamental changes to the Code, includes a reduction to the federal corporate income tax rate, partial limitation on the deductibility of business interest expense, a longer three-year holding period requirement for carried interest to be treated as long-term capital gain, limitations on the use, carryback and carryforward of net operating losses and changes relating to the scope and timing of U.S. taxation on earnings from international business operations. The exact impact of the Tax Act is difficult to quantify, but these changes could materially and adversely affect our investors, the companies in which our funds invest, or us. In addition, other changes could be enacted in the future to increase the corporate tax rate, limit further the deductibility of interest, subject carried interest to more onerous taxation or effect other changes that could have a material adverse effect on our business, results of operations and financial condition. In addition, our effective tax rate and tax liability are based on the application of current income tax laws, regulations and treaties. These laws, regulations and treaties are complex, and the manner which they apply to us and our funds is sometimes open to interpretation. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. The tax authorities could challenge our interpretation of laws, regulations and treaties, resulting in additional tax liability or adjustment to our income tax provision that could increase our effective tax rate. Changes to tax laws may also adversely affect our ability to attract and retain key personnel.

Our advisory and investment management businesses are subject to regulation in the United States, including by the Securities and Exchange Commission (the “SEC”), the Commodity Futures Trading Commission (the “CFTC”), the Internal Revenue Service (the “IRS”), the Financial Industry Regulatory Authority and other regulatory agencies, pursuant to, among other laws, the Investment Advisers Act of 1940 (the “Investment Advisers Act”), the Securities Act, the Code, the Commodity Exchange Act, and the Exchange Act. Any change in such regulation or oversight may have a material adverse impact on our operating results. In addition, we regularly rely on exemptions from various requirements of these laws. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third parties whom we do not control. If, for any reason, these exemptions were to be revoked or challenged or otherwise become unavailable to us, we could be subject to regulatory action or third-party claims, and our business could be materially and adversely affected. Our failure to comply with applicable laws or regulations could result in fines, suspensions of personnel or other sanctions, including revocation of our registration as an investment adviser or the registration of our broker-dealer subsidiary. Even if a sanction imposed against us or our personnel is small in monetary amount, the adverse publicity arising from the imposition of sanctions against us by regulators could harm our reputation and cause us to lose existing clients or fail to gain new clients.

In the wake of highly publicized financial scandals, investors exhibited concerns over the integrity of the U.S. financial markets, and the regulatory environment in which we operate is subject to further regulation in addition to those rules already promulgated. For example, there are a significant number of new and proposed regulations that may affect our business under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”). The SEC in particular has increased its regulation of the asset management and private equity industries in recent years, focusing on the private equity industry’s fees, allocation of expenses to funds, valuation practices, allocation of fund investment opportunities, disclosures to fund investors, the allocation of broken-deal expenses and general conflicts of interest disclosures. The SEC has also heightened its focus on the valuation processes employed by investment advisers. The lack of readily ascertainable market prices for many of the investments made by our specialized funds or customized separate accounts or the funds in which we invest could subject our valuation policies and processes to increased scrutiny by the SEC. We may be adversely affected as a

result of new or revised legislation or regulations imposed by the SEC, other U.S. or foreign governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. The pending exit of the United Kingdom from the EU may subject us to new and increased regulations if we can no longer rely on passporting privileges that allow U.K. financial institutions to access the EU single market without restrictions. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations.

To the extent that HLA is a “fiduciary” under ERISA, with respect to benefit plan clients, it is subject to ERISA, and to regulations promulgated thereunder. ERISA and applicable provisions of the Code impose certain duties on persons who are fiduciaries under ERISA, prohibit certain transactions involving ERISA plan clients and provide monetary penalties for violations of these prohibitions. Our failure to comply with these requirements could have a material adverse effect on our business. In addition, a court could find that one of our co-investment funds has formed a partnership-in-fact conducting a trade or business and would therefore be jointly and severally liable for the portfolio company’s unfunded pension liabilities.

In addition, HLA is registered as an investment adviser with the SEC and is subject to the requirements and regulations of the Investment Advisers Act. Such requirements relate to, among other things, restrictions on entering into transactions with clients, maintaining an effective compliance program, incentive fees, solicitation arrangements, allocation of investments, recordkeeping and reporting requirements, disclosure requirements, limitations on agency cross and principal transactions between an adviser and their advisory clients, as well as general anti-fraud prohibitions. As a registered investment adviser, HLA has fiduciary duties to its clients. A failure to comply with the obligations imposed by the Investment Advisers Act, including recordkeeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities, could result in investigations, sanctions and reputational damage, and could materially and adversely affect our business, financial condition and results of operations.

The recently enacted Foreign Investment Risk Review Modernization Act may significantly increase the types of transactions that are subject to the jurisdiction of the Committee on Foreign Investment in the United States (“CFIUS”). Once the reform legislation is fully implemented through the rulemaking process, CFIUS will have the authority to review and potentially recommend that the President of the United States block or impose conditions on non-controlling investments in critical infrastructure and critical technology companies and in companies collecting or storing sensitive data of U.S. citizens, which may reduce the number of potential buyers and limit the ability of our funds to realize value from certain existing and future investments.

In the EU, the MiFID II, which became effective on January 3, 2018, requires, among other things, all MiFID investment firms to comply with more prescriptive disclosure, transparency, reporting and recordkeeping obligations and enhanced obligations in relation to the receipt of investment research, best execution, product governance and marketing communications. As we operate investment firms which are subject to MiFID, we have implemented revised policies and procedures to comply with MiFID II where relevant, including where certain rules have an extraterritorial impact on us. Compliance with MiFID II will result in greater overall complexity, higher compliance, administration and operational costs, and less overall flexibility.

In addition, the GDPR replaced a pre-existing data protection directive and, as a regulation, had direct effect in all EU member states beginning May 25, 2018. The GDPR introduces new obligations and expands its territorial reach. It applies to all organizations processing or holding personal data of EU ‘data subjects’ (regardless of the organization’s location) as well as to organizations outside the EU that offer

goods or services in the EU, or that monitor the behavior of EU data subjects. Personal data is information that can be used to identify a natural person, including a name, a photo, an email address, or a computer IP address. Compliance with the GDPR requires companies to analyze and evaluate how they handle data in the ordinary course of their business, from processes to technology. It imposes a prescriptive approach to compliance requiring organizations to demonstrate and record compliance and to provide much more detailed information to data subjects regarding processing. EU data subjects need to be given full disclosure about how their personal data will be used and stored. In that connection, consent must be explicit and companies must be in a position to delete information from their global systems permanently if consent were withdrawn. As with any other organization that holds personal data of EU data subjects, we have to comply with the GDPR because, among other things, we process European individuals' personal data in the U.S. via our global technology systems. Financial regulators and data protection authorities throughout the EU have significantly increased audit and investigatory powers under GDPR to probe how personal data is being used and processed. Penalties for non-compliance are material. Serious breaches of GDPR include fines on companies of up to the greater of €20 million or 4% of global group turnover in the preceding year, regulatory action and reputational risk.

Federal, state and foreign anti-corruption and sanctions laws create the potential for significant liabilities and penalties and reputational harm.

We are also subject to a number of laws and regulations governing payments and contributions to political persons or other third parties, including restrictions imposed by the Foreign Corrupt Practices Act ("FCPA") as well as trade sanctions and export control laws administered by the Office of Foreign Assets Control ("OFAC"), the U.S. Department of Commerce and the U.S. Department of State. The FCPA is intended to prohibit bribery of foreign governments and their officials and political parties, and requires public companies in the United States to keep books and records that accurately and fairly reflect those companies' transactions. OFAC, the U.S. Department of Commerce and the U.S. Department of State administer and enforce various export control laws and regulations, including economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign states, organizations and individuals. These laws and regulations relate to a number of aspects of our business, including servicing existing fund investors, finding new fund investors, and sourcing new investments, as well as activities by the portfolio companies in our investment portfolio or other controlled investments.

Similar laws in non-U.S. jurisdictions, such as EU sanctions or the U.K. Bribery Act, as well as other applicable anti-bribery, anti-corruption, anti-money laundering, or sanction or other export control laws in the U.S. and abroad, may also impose stricter or more onerous requirements than the FCPA, OFAC, the U.S. Department of Commerce and the U.S. Department of State, and implementing them may disrupt our business or cause us to incur significantly more costs to comply with those laws. Different laws may also contain conflicting provisions, making compliance with all laws more difficult. If we fail to comply with these laws and regulations, we could be exposed to claims for damages, civil or criminal financial penalties, reputational harm, incarceration of our employees, restrictions on our operations and other liabilities, which could negatively affect our business, operating results and financial condition. In addition, we may be subject to successor liability for FCPA violations or other acts of bribery, or violations of applicable sanctions or other export control laws committed by companies in which we or our funds invest or which we or our funds acquire. While we have developed and implemented policies and procedures designed to ensure strict compliance by us and our personnel with the FCPA and other anti-corruption, sanctions and export control laws in jurisdictions in which we operate, such policies and procedures may not be effective in all instances to prevent violations. Any determination that we have violated the FCPA or other applicable anti-corruption, sanctions or export control laws could subject us to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely

affect our business prospects, financial condition, results of operations or the market value of our Class A common stock.

Regulation of investment advisors outside the United States could adversely affect our ability to operate our business.

We provide investment advisory and other services and raise funds in a number of countries and jurisdictions outside the United States. In many of these countries and jurisdictions, which include the EU, the EEA, the individual member states of each of the EU and EEA, Hong Kong, Korea, Brazil and Japan, we and our operations, and in some cases our personnel, are subject to regulatory oversight and requirements. In general, these requirements relate to registration, licenses for our personnel, periodic inspections, the provision and filing of periodic reports, and obtaining certifications and other approvals. Across the EU, we are subject to the AIFMD, under which we are subject to regulatory requirements regarding, among other things, registration for marketing activities, the structure of remuneration for certain of our personnel and reporting obligations. Individual member states of the EU have imposed additional requirements that may include internal arrangements with respect to risk management, liquidity risks, asset valuations, and the establishment and security of depository and custodial requirements. Because some EEA countries have not yet incorporated the AIFMD into their agreement with the EU, we may undertake marketing activities and provide services in those EEA countries only in compliance with applicable local laws. Outside the EEA, the regulations to which we are subject relate primarily to registration and reporting obligations.

It is expected that additional laws and regulations will come into force in the EEA, the EU, and other countries in which we operate over the coming years. These laws and regulations may affect our costs and manner of conducting business in one or more markets, the risks of doing business, the assets that we manage or advise, and our ability to raise capital from investors. In addition, the pending exit of the United Kingdom from the EU may have adverse economic, political and regulatory effects on the operation of our business. Any failure by us to comply with either existing or new laws or regulations could have a material adverse effect on our business, financial condition and results of operations.

Volatile market, political and economic conditions can adversely affect investments made by our specialized funds, customized separate accounts and advisory accounts.

Since 2008, there has been continued volatility and disruption in the global financial markets. Volatility and disruption in the equity and credit markets could adversely affect the portfolio companies in which the private markets funds invest, which, in turn, would adversely affect the performance of our specialized funds, customized separate accounts and advisory accounts. For example, the lack of available credit or the increased cost of credit may materially and adversely affect the performance of funds that rely heavily on leverage such as leveraged buyout funds. Disruptions in the debt and equity markets may make it more difficult for funds to exit and realize value from their investments, because potential buyers of portfolio companies may not be able to finance acquisitions and the equity markets may become unfavorable for IPOs. In addition, the volatility will directly affect the market prices of securities issued by many companies for reasons unrelated to their operating performance and may adversely affect the valuation of the investments of our specialized funds, customized separate accounts and advisory accounts. Any or all of these factors may result in lower investment returns. Governmental authorities have undertaken, and may continue to undertake, a variety of initiatives designed to strengthen and stabilize the economy and the financial markets. However, there can be no assurance that these initiatives will be successful, and there is no way to predict the ultimate impact of the disruption or the effect that these initiatives will have on the performance of our specialized funds, customized separate accounts or advisory accounts.

Investments in many industries have experienced significant volatility over the last several years. The ability to realize investments depends not only on our investments and the investments made by the private markets funds and portfolio companies in which we invest and their respective results and prospects, but also on political and economic conditions, which are out of our control. Continued volatility in political or economic conditions, including an outbreak or escalation of major hostilities, declarations of war, terrorist actions or other substantial national or international calamities or emergencies, could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Organizational Structure

We have incurred and will continue to incur increased costs as a result of becoming a public company and in the administration of our complex organizational structure.

As a public company, we incur significant legal, accounting, insurance and other expenses that we did not previously incur as a private company, including costs associated with public company reporting requirements. We also have incurred and will continue to incur costs associated with compliance with the Sarbanes-Oxley Act and related rules implemented by the SEC.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as regulatory and governing bodies provide new guidance. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We will continue to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us, and our business, financial condition and results of operations could be materially and adversely affected.

As a result of disclosure of information as a public company, our business and financial condition will become more visible, which may result in threatened or actual litigation, including by competitors and other third parties. If the claims are successful, our business, financial condition and results of operations could be materially and adversely affected. Even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business operations and financial results. These factors could also make it more difficult for us to attract and retain qualified employees, executive officers and members of our board of directors.

We also expect that operating as a public company will make it more difficult and more expensive for us to obtain director and officer liability insurance on desired terms. As a result, it may be more difficult for us to attract and retain qualified people to serve on our board of directors or our board committees or to serve as executive officers. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our Class A common stock, fines, sanctions and other regulatory action and potentially civil litigation.

Our organizational structure, including our tax receivable agreement, is very complex, and we require the expertise of various tax, legal and accounting advisers to ensure compliance with our governing documents. We have and will continue to incur significant expenses in connection with the administration of our organizational structure. As a result, our expenses for legal, tax and accounting compliance may be significantly greater than other companies of our size that do not have a similar organizational structure or a tax receivable agreement in place.

We have identified a material weakness in our internal control over financial reporting, and any inability to maintain effective internal control over financial reporting could have a material adverse effect on our business and stock price.

We are required to comply with the SEC's rules implementing Sections 302 and 404 of the Sarbanes-Oxley Act, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of controls over financial reporting. Additionally, as we are no longer considered an emerging growth company, we are now required to have our independent registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting.

During the course of preparing our audited financial statements for this Form 10-K, we, in conjunction with our independent registered public accounting firm, concluded that a lack of adequate controls surrounding one information technology system constituted a material weakness in our internal control over financial reporting. Specifically, information technology general controls were determined to be ineffective for one information technology system. Compensating controls designed by management were ineffectively designed to ensure an adequate control environment because the compensating controls relied on data generated by the same system. These deficiencies in design and operating effectiveness are considered a material weakness because they could lead to the untimely identification and resolution of accounting and disclosure matters or could lead to a failure to perform timely and effective reviews at a level of precision necessary to identify a material error.

A material weakness is a deficiency, or combination of deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

As a result of the identification of this material weakness, we plan to implement measures designed to improve our internal control over financial reporting, including independent reconciliation and verification of balances outside of the software system, and the establishment of additional monitoring and oversight controls. We cannot be certain that these efforts will be sufficient to remediate or prevent future material weaknesses or significant deficiencies from occurring.

If we identify additional material weaknesses, or fail to remediate existing material weaknesses, investors may lose confidence in the accuracy and completeness of our financial reports, the market price of our Class A common stock could be negatively affected, and we could become subject to investigations by Nasdaq, the SEC or other regulatory authorities, which could require additional financial and management resources and could lead to a decline in our stock price.

We are a “controlled company” within the meaning of the Nasdaq listing standards and, as a result, qualify for, and intend to continue to rely on, exemptions from certain corporate governance requirements. You will not have the same protections afforded to stockholders of companies that are subject to such requirements.

Holders of our Class B common stock, which is not publicly traded, control a majority of the voting power of our outstanding common stock. As a result, we qualify as a “controlled company” within the meaning of the corporate governance standards of Nasdaq. Under these rules, a listed company of which more than 50% of the voting power is held by an individual, group or another company is a “controlled company” and may elect not to comply with certain corporate governance requirements, including the requirement that (i) a majority of our board of directors consist of independent directors, (ii) director nominees be selected or recommended to the board by independent directors and (iii) we have a compensation committee that is composed entirely of independent directors.

We have elected to rely on these exemptions and expect to continue to do so. As a result, we do not have a majority of independent directors, our compensation committee does not consist entirely of independent directors and our directors are not nominated or selected by independent directors. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of Nasdaq.

Our only material asset is our interest in HLA, and we are accordingly dependent upon distributions from HLA to pay dividends and taxes and other expenses.

HLI is a holding company and has no material assets, and other than its ownership of membership units in HLA, HLI does not have any independent means of generating revenue. We intend to cause HLA to make pro rata distributions to its members, including us, in an amount at least sufficient to allow us to pay all applicable taxes, to make payments under the tax receivable agreement we have entered into with the direct and indirect members of HLA, and to pay our corporate and other overhead expenses. To the extent that HLI needs funds, and HLA is restricted from making such distributions under applicable laws or regulations, or is otherwise unable to provide such funds, it could materially and adversely affect our liquidity and financial condition.

The IRS might challenge the tax basis step-up we received in connection with our IPO and the related transactions and in connection with subsequent acquisitions of membership units in HLA.

We have used a portion of the proceeds from our IPO and from subsequent registered offerings to purchase membership units in HLA from certain of the legacy direct or indirect members of HLA, which resulted in an increase in our share of the tax basis of the assets of HLA that otherwise would not have been available. The HLA membership units held directly and indirectly by the members of HLA other than HLI, including members of our senior management team, may in the future be exchanged for shares of our Class A common stock or, at our election, for cash. These exchanges are likely to result in increases in our share of the tax basis of the assets of HLA that otherwise would not have been available. The increases in tax basis may reduce the amount of tax that we would otherwise be required to pay in the future, although it is possible that the IRS might challenge all or part of that tax basis increase, and a court might sustain such a challenge. Our ability to achieve benefits from any tax basis increase will depend upon a number of factors, as discussed below, including the timing and amount of our future income.

We are required to pay over to legacy direct or indirect members of HLA most of the tax benefits we receive from tax basis step-ups attributable to our acquisition of membership units of HLA, and the amount of those payments could be substantial.

As part of our Reorganization, we entered into a tax receivable agreement for the benefit of the direct and indirect members of HLA other than us, pursuant to which we will pay them 85% of the amount of the tax savings, if any, that we realize (or, under certain circumstances, are deemed to realize) as a result of increases in tax basis (and certain other tax benefits) resulting from our acquisition of membership units or as a result of certain items of loss being specially allocated to us for tax purposes in connection with dispositions by HLA of certain investment assets. HLI will retain the benefit of the remaining 15% of these tax savings.

The term of the tax receivable agreement commenced upon the completion of our IPO and will continue until all tax benefits that are subject to the tax receivable agreement have been utilized or have expired, unless we exercise our right to terminate the tax receivable agreement (or the tax receivable agreement is terminated due to a change of control or our breach of a material obligation thereunder), in which case, we will be required to make the termination payment specified in the tax receivable agreement. In addition, payments we make under the tax receivable agreement will be increased by any interest accrued from the due date (without extensions) of the corresponding tax return.

The actual increase in tax basis, as well as the amount and timing of any payments under the tax receivable agreement, will vary depending on a number of factors, including, but not limited to, the price of our Class A common stock at the time of the purchase or exchange, the timing of any future exchanges, the extent to which exchanges are taxable, the amount and timing of our income and the tax rates then applicable. We expect that, as a result of the increases in the tax basis of the tangible and intangible assets of HLA attributable to the exchanged HLA interests, the payments that we may make to the legacy direct or indirect members of HLA could be substantial. There may be a material negative effect on our liquidity if, as described below, the payments under the tax receivable agreement exceed the actual benefits we receive in respect of the tax attributes subject to the tax receivable agreement and/or distributions to us by HLA are not sufficient to permit us to make payments under the tax receivable agreement.

In certain circumstances, payments under the tax receivable agreement may be accelerated and/or significantly exceed the actual tax benefits we realize.

The tax receivable agreement provides that if we exercise our right to early termination of the tax receivable agreement, in whole or in part, we experience a change in control, or we materially breach our obligations under the tax receivable agreement, we will be obligated to make an early termination payment to the legacy direct or indirect members of HLA equal to the net present value of all payments that would be required to be paid by us under the tax receivable agreement. The amount of such payments will be determined on the basis of certain assumptions in the tax receivable agreement, including (i) the assumption (except in the case of a partial termination) that we would have enough taxable income in the future to fully utilize the tax benefit resulting from any increased tax basis that results from an exchange and (ii) the assumption that any units (other than those held by Hamilton Lane Incorporated) outstanding on the termination date are deemed to be exchanged for shares of Class A common stock on the termination date. Any early termination payment may be made significantly in advance of the actual realization, if any, of the future tax benefits to which the termination payment relates.

Moreover, as a result of an elective early termination, a change of control or our material breach of our obligations under the tax receivable agreement, we could be required to make payments under the tax receivable agreement that exceed our actual cash savings under the tax receivable agreement. Thus, our obligations under the tax receivable agreement could have a substantial negative impact on our liquidity

and could have the effect of delaying, deferring or preventing certain mergers, asset sales, or other forms of business combinations or changes of control. There can be no assurance that we will be able to finance any such early termination payment. It is also possible that the actual benefits ultimately realized by us may be significantly less than were projected in the computation of the early termination payment.

We will not be reimbursed for any payments previously made under the tax receivable agreement if the basis increases described above are successfully challenged by the IRS or another taxing authority. As a result, in certain circumstances, payments could be made under the tax receivable agreement in excess of our ultimate cash tax savings.

In certain circumstances, HLA is required to make distributions to us and the direct and indirect owners of HLA, and the distributions that HLA will be required to make may be substantial.

HLA is treated as a partnership for U.S. federal income tax purposes and, as such, is not subject to U.S. federal income tax. Instead, taxable income is allocated to members, including us. Pursuant to the HLA Operating Agreement, HLA makes pro rata cash distributions, or tax distributions, to the members, including us, calculated using an assumed tax rate, to help each of the members to pay taxes on such member's allocable share of the cumulative taxable income, reduced by cumulative taxable losses. Under applicable tax rules, HLA is required to allocate net taxable income disproportionately to its members in certain circumstances. Because tax distributions are determined based on the member who is allocated the largest amount of taxable income on a per unit basis and on an assumed tax rate that is the highest possible rate applicable to any member, but are made pro rata based on ownership, HLA is required to make tax distributions that, in the aggregate, will likely exceed the amount of taxes that HLA would have paid if it were taxed on its net income at the assumed rate. The pro rata distribution amounts will also be increased if and to the extent necessary to ensure that the amount distributed to HLI is sufficient to enable HLI to pay its actual tax liabilities and its other expenses and costs (including amounts payable under the tax receivable agreement).

Funds used by HLA to satisfy its tax distribution obligations are not available for reinvestment in our business. Moreover, the tax distributions HLA is required to make may be substantial, and may exceed (as a percentage of HLA's income) the overall effective tax rate applicable to a similarly situated corporate taxpayer. In addition, because these payments are calculated with reference to an assumed tax rate, and because of the disproportionate allocation of net taxable income, these payments will likely significantly exceed the actual tax liability for many of the legacy owners of HLA.

As a result of (i) potential differences in the amount of net taxable income allocable to us and to the direct and indirect owners of HLA, (ii) the lower tax rate applicable to corporations than individuals and (iii) the use of an assumed tax rate in calculating HLA's distribution obligations, we may receive distributions significantly in excess of our tax liabilities and obligations to make payments under the tax receivable agreement. If we do not distribute such cash balances as dividends on our Class A common stock and instead, for example, hold such cash balances or lend them to HLA, the existing owners of HLA would benefit from any value attributable to such accumulated cash balances as a result of their right to acquire shares of Class A common stock or, at our election, an amount of cash equal to the fair market value thereof, in exchange for their Class B units or Class C units.

If Hamilton Lane Incorporated were deemed an “investment company” under the Investment Company Act as a result of its ownership of HLA, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.

An issuer will generally be deemed to be an “investment company” for purposes of the Investment Company Act if:

- it is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities; or
- absent an applicable exemption, it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis.

We believe that we are engaged primarily in the business of providing asset management services and not in the business of investing, reinvesting or trading in securities. We also believe that the primary source of income from each of our businesses is properly characterized as income earned in exchange for the provision of services. We hold ourselves out as an asset management firm and do not propose to engage primarily in the business of investing, reinvesting or trading in securities. Accordingly, we do not believe that either Hamilton Lane Incorporated or HLA is an “orthodox” investment company as defined in section 3(a)(1)(A) of the Investment Company Act and described in the first bullet point above. HLA does not have significant assets other than its equity interests in certain wholly owned subsidiaries, which in turn have no significant assets other than general partner interests in the specialized funds we sponsor. These wholly owned subsidiaries are the sole general partners of the funds and are vested with all management and control over the funds. We do not believe the equity interests of HLA in its wholly owned subsidiaries or the general partner interests of these wholly owned subsidiaries in the funds are investment securities. Hamilton Lane Incorporated’s unconsolidated assets consist primarily of cash, a deferred tax asset and Class A units of HLA, which represent the managing member interest in HLA. Hamilton Lane Incorporated is the sole managing member of HLA and holds an approximately 50.3% economic interest in HLA. As managing member, Hamilton Lane Incorporated exercises complete control over HLA. As such, we do not believe Hamilton Lane Incorporated’s managing member interest in HLA is an investment security. Therefore, we believe that less than 40% of Hamilton Lane Incorporated’s total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis comprise assets that could be considered investment securities. Accordingly, we do not believe Hamilton Lane Incorporated is an inadvertent investment company by virtue of the 40% test in section 3(a)(1)(C) of the Investment Company Act as described in the second bullet point above. In addition, we believe Hamilton Lane Incorporated is not an investment company under section 3(b)(1) of the Investment Company Act because it is primarily engaged in a non-investment company business.

The Investment Company Act and the rules thereunder contain detailed parameters for the organization and operations of investment companies. Among other things, the Investment Company Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, prohibit the issuance of stock options, and impose certain governance requirements. We intend to continue to conduct our operations so that Hamilton Lane Incorporated will not be deemed to be an investment company under the Investment Company Act. However, if anything were to happen that would cause Hamilton Lane Incorporated to be deemed to be an investment company under the Investment Company Act, requirements imposed by the Investment Company Act, including limitations on our capital structure, ability to transact business with affiliates (including us) and ability to compensate key employees, could make it impractical for us to continue our business as currently conducted, impair the agreements and arrangements between and among HLA, us or our senior

management team, or any combination thereof and materially and adversely affect our business, financial condition and results of operations.

A change of control of our Company, including the occurrence of a “Sunset,” could result in an assignment of our investment advisory agreements.

Under the Investment Advisers Act, each of the investment advisory agreements for the funds and other accounts we manage must provide that it may not be assigned without the consent of the particular fund or other client. An assignment may occur under the Investment Advisers Act if, among other things, HLA undergoes a change of control. After a “Sunset” becomes effective (as described in “Organizational Structure—Class A and Class B Common Stock—Voting Rights”), the Class B Common Stock will have one vote per share instead of ten votes per share, and the stockholders agreement will expire, meaning that the Class B Holders party thereto will no longer control the appointment of directors or be able to direct the vote on all matters that are submitted to our stockholders for a vote. These events could be deemed a change of control of HLA, and thus an assignment. If such an assignment occurs, we cannot be certain that HLA will be able to obtain the necessary consents from our funds and other clients, which could cause us to lose the management fees and performance fees we earn from such funds and other clients.

Because members of our senior management team hold most of their economic interest through other entities, conflicts of interest may arise between them and holders of shares of our Class A common stock or us.

Because members of our senior management team hold most of their economic interest in HLA directly through existing holding companies rather than through ownership of shares of our Class A common stock, they may have interests that do not align with, or conflict with, those of the holders of Class A common stock or with us. For example, members of our senior management team have different tax positions from Class A common stockholders, which could influence their decisions regarding whether and when to dispose of assets, whether and when to incur new or refinance existing indebtedness, and whether and when we should terminate the tax receivable agreement and accelerate the obligations thereunder. In addition, the structuring of future transactions and investments may take into consideration the members’ tax considerations even where no similar benefit would accrue to us.

The disparity in the voting rights among the classes of our common stock and inability of the holders of our Class A common stock to influence decisions submitted to a vote of our stockholders may have an adverse effect on the price of our Class A common stock.

Holders of our Class A common stock and Class B common stock vote together as a single class on almost all matters submitted to a vote of our stockholders. Shares of our Class A common stock and Class B common stock entitle the respective holders to identical non-economic rights, except that each share of our Class A common stock entitles its holder to one vote on all matters to be voted on by stockholders generally, while each share of our Class B common stock entitles its holder to ten votes until a Sunset becomes effective. See “Organizational Structure—Class A and Class B Common Stock.” After a Sunset becomes effective, each share of our Class B common stock will entitle its holder to one vote. Certain of the holders of our Class B common stock who are significant outside investors, members of management and significant employee owners have agreed to vote all of their shares in accordance with the instructions of HLA Investments, LLC (“HLAI”), and will therefore be able to exercise control over all matters requiring our stockholders’ approval, including the election of our directors, as well as any significant corporate transactions. The difference in voting rights could adversely affect the value of our Class A common stock to the extent that investors view, or any potential future purchaser of our Company views, the superior voting rights and implicit control of the Class B common stock to have value.

The historical financial information in this Form 10-K may not permit you to assess our future performance, including our costs of operations.

The historical financial information in this Form 10-K for periods before our IPO does not reflect the added costs we incur as a public company or the resulting changes that have occurred or will occur in our capital structure and operations. For more information on our historical financial information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 and the historical consolidated financial statements in Part II, Item 8 of this Form 10-K.

Our share price may decline due to the large number of shares eligible for future sale and for exchange.

The market price of our Class A common stock could decline as a result of sales of a large number of shares of Class A common stock in the market or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. Shares of Class A common stock that were issued in the Reorganization to the original members of HLA who became HLI stockholders owning our Class A common stock are “restricted securities”, and their resale is subject to future registration or reliance on an exemption from registration.

The approximately 26.4 million shares of Class A common stock issuable upon exchange of the Class B units and Class C units that are held by Class B Holders and Class C Holders will be eligible for resale from time to time, subject to certain contractual, exchange timing and volume, and Securities Act restrictions.

We have entered into a registration rights agreement with certain Class B Holders who are significant outside investors, members of management and significant employee owners. Under that agreement, subject to certain limitations, those persons have the ability to cause us to register the resale of shares of our Class A common stock that they acquire upon exchange of their Class B units and Class C units in HLA. Registration of these shares would result in them becoming freely tradable in the open market unless restrictions apply.

We expect to continue to pay dividends to our stockholders, but our ability to do so is subject to the discretion of our board of directors and may be limited by our holding company structure and applicable provisions of Delaware and Pennsylvania law.

Since our IPO, our board of directors has declared regular quarterly dividends on our Class A common stock. Although we expect to continue to pay cash dividends to our stockholders, our board of directors may, in its discretion, increase or decrease the level of dividends or discontinue the payment of dividends entirely. In addition, as a holding company, we are dependent upon the ability of HLA to generate earnings and cash flows and distribute them to us so that we may pay our obligations and expenses (including our taxes and payments under the tax receivable agreement) and pay dividends to our stockholders. We expect to cause HLA to make distributions to its members, including us. However, the ability of HLA to make such distributions will be subject to its operating results, cash requirements and financial condition and applicable Pennsylvania law (which may limit the amount of funds available for distribution to its members). Our ability to declare and pay dividends to our stockholders is likewise subject to Delaware law (which may limit the amount of funds available for dividends). If, as a consequence of these various limitations and restrictions, we are unable to generate sufficient distributions from our business, we may not be able to make, or may be required to reduce or eliminate, the payment of dividends on our Class A common stock.

The market price of our Class A common stock may be volatile, which could cause the value of your investment to decline.

Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of our Class A common stock in spite of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors, and in response, the market price of our Class A common stock could decrease significantly. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could harm our business.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us more difficult, limit attempts by our stockholders to replace or remove our current management and may negatively affect the market price of our Class A common stock.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our certificate of incorporation and bylaws include provisions that:

- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- establish that our board of directors is divided into three classes, with each class serving three-year staggered terms;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent, except that action by written consent will be allowed for as long as we are a controlled company;
- specify that special meetings of our stockholders can be called only by our board of directors or the chairman of our board of directors;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- authorize our board of directors to issue, without further action by the stockholders, up to 10,000,000 shares of undesignated preferred stock; and
- reflect two classes of common stock, as discussed above.

These and other provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. Also, the tax receivable agreement provides that, in the event of a change of control, we will be required to make a payment equal to the present value of estimated future payments under the tax receivable agreement, which would result in a significant payment becoming due in the event of a change of control. In addition, we are a Delaware corporation and governed by the Delaware General Corporation Law (the "DGCL"). Section 203 of the DGCL generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested" stockholder, in particular those owning 15% or more of our outstanding voting stock, for a period of three years following the date on which the

stockholder became an “interested” stockholder. While we have elected in our certificate of incorporation not to be subject to Section 203 of the DGCL, our certificate of incorporation contains provisions that have the same effect as Section 203 of the DGCL, except that they provide that HLAI, its affiliates, groups that include HLAI and certain of their direct and indirect transferees will not be deemed to be “interested stockholders,” regardless of the percentage of our voting stock owned by them, and accordingly will not be subject to such restrictions.

The provision of our certificate of incorporation requiring exclusive venue in the Court of Chancery in the State of Delaware for certain types of lawsuits may have the effect of discouraging lawsuits against our directors and officers.

Our certificate of incorporation requires, to the fullest extent permitted by law, that (1) any derivative action or proceeding brought on our behalf, (2) any action asserting a claim of breach of a fiduciary duty owed by any of our current or former directors, officers or stockholders to us or our stockholders, (3) any action asserting a claim arising pursuant to any provision of the DGCL or our certificate of incorporation or bylaws, (4) any action to interpret, apply, enforce or determine the validity of our certificate of incorporation or bylaws or (5) any action asserting a claim governed by the internal affairs doctrine may be brought only in the Court of Chancery in the State of Delaware. Although we believe this provision benefits us by providing increased consistency in the application of Delaware law in the types of lawsuits to which it applies, the provision may have the effect of discouraging lawsuits against our directors and officers.

Securities analyst coverage or lack of coverage may have a negative effect on our Class A common stock’s market price.

The trading market for our Class A common stock depends, in part, on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If securities or industry analysts stop their coverage of us or additional securities and industry analysts fail to cover us in the future, the trading price for our Class A common stock would be negatively affected. If any analyst or analysts who cover us downgrade our Class A common stock, change their opinion of us or publish inaccurate or unfavorable research about our business, our stock price may decline. If any analyst or analysts cease coverage of us or fail to publish reports on us regularly, demand for our Class A common stock could decrease, and we could lose visibility in the financial markets, which could cause our stock price and trading volume to decline.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties

We lease our corporate headquarters and principal offices, which are located at One Presidential Boulevard, Bala Cynwyd, Pennsylvania 19004. We also lease additional office space in Bala Cynwyd, Pennsylvania, as well as Hong Kong, London, Miami, Munich, New York, Portland (Oregon), Rio de Janeiro, San Diego, San Francisco, Seoul, Sydney, Herzliya, Israel (a suburb of Tel Aviv), Tokyo and Toronto. We do not own any real property. We believe our current facilities are adequate for our current needs and that suitable additional space will be available as and when needed.

Item 3. Legal Proceedings

In the ordinary course of business, we may be subject to various legal, regulatory and/or administrative proceedings from time to time. Currently, there are no material proceedings pending or, to our knowledge, threatened against us.

Item 4: Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Shares of our Class A common stock began trading on the Nasdaq Global Select Market under the symbol "HLNE" on March 1, 2017. Prior to that date, there was no public trading market for shares of our Class A common stock.

There is no established public trading market for our Class B common stock. Class B common stock may not be transferred independently of the corresponding Class B units, which are subject to significant restrictions on transfer as set forth in the HLA Operating Agreement. Holders of Class B common stock are entitled to receive only the par value (\$0.001) of the Class B common stock upon exchange of the corresponding Class B unit pursuant to the exchange agreement.

Holders of Record

As of May 28, 2019, there were eight stockholders of record of our Class A common stock. The number of record holders does not include persons who held shares of our Class A common stock in nominee or "street name" accounts through brokers. As of May 28, 2019, there were 36 stockholders of record of our Class B common stock.

Dividend Policy

We declared and paid a quarterly dividend of \$0.2125 per share of Class A common stock to record holders for each quarter of fiscal 2019. On May 29, 2019, we declared a quarterly dividend of \$0.275 per share of Class A common stock to record holders at the close of business on June 14, 2019. The payment date will be July 5, 2019. We do not pay dividends on our Class B common stock.

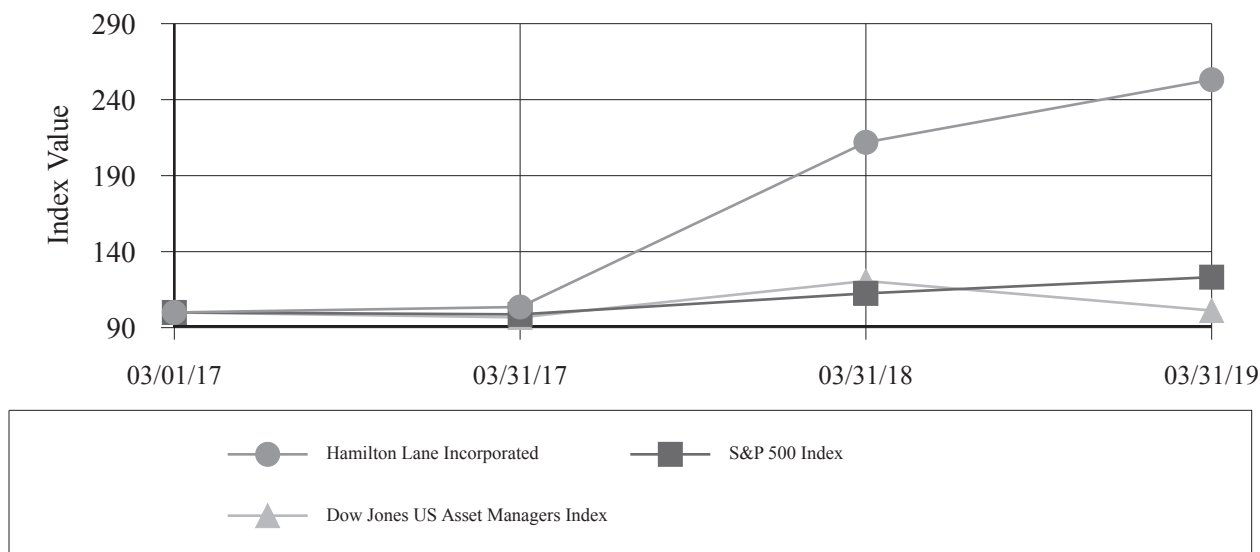
The declaration and payment by us of any future dividends to holders of our Class A common stock is at the sole discretion of our board of directors. Our board intends to cause us to continue to pay a comparable cash dividend on a quarterly basis. Subject to funds being legally available, we intend to cause HLA to make pro rata distributions to its members, including us, in an amount at least sufficient to allow us to pay all applicable taxes, to make payments under the tax receivable agreement, and to pay our corporate and other overhead expenses, including dividend payments to our stockholders.

Stock Performance Graph

The following graph and table depict the total return to stockholders from the closing price on March 1, 2017 (the date our Class A common stock began trading on Nasdaq) through March 31, 2019, relative to the performance of the S&P 500 Index and the Dow Jones U.S. Asset Managers Index. The graph and table assume \$100 invested on March 1, 2017, and dividends reinvested in the security or index.

The performance graph and table are not intended to be indicative of future performance. The performance graph and table shall not be deemed "soliciting material" or to be "filed" with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any of the Company's filings under the Securities Act or the Exchange Act.

Total Return Performance



	3/1/17	3/31/17	3/31/18	3/31/19
Hamilton Lane Incorporated	\$100.00	\$103.61	\$211.93	\$253.14
S&P 500	100.00	98.75	112.54	123.22
Dow Jones US Asset Managers Index	100.00	96.85	120.71	101.29

Issuer Purchases of Equity Securities

The following table provides information about our share repurchase activity for the quarter ended March 31, 2019:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(2)
January 1-31, 2019	—	\$ —	—	\$ 50,000,000
February 1-28, 2019	—	\$ —	—	\$ 50,000,000
March 1-31, 2019	120,091	\$ 43.55	—	\$ 50,000,000
Total	120,091	\$ 43.55		

(1) Represents shares of Class A common stock tendered by employees as payment of taxes withheld on the vesting of restricted stock granted under the Hamilton Lane Incorporated 2017 Equity Incentive Plan, as amended (the “2017 Equity Plan”).

(2) On November 6, 2018, we announced that our board of directors authorized a program to repurchase, in the aggregate, up to 6% of the outstanding shares of our Class A common stock as of the date of the authorization, not to exceed \$50 million (the “Stock Repurchase Program”). The authorization provides us the flexibility to repurchase shares in the open market or in privately negotiated transactions from time to time, based on market conditions and other factors. We have not repurchased any of our Class A common stock under the Stock Repurchase Program, so the full purchase authority remains available under this program, which expires 12 months after the date of the first acquisition under the authorization.

Item 6. Selected Financial Data

The following selected consolidated income statement data for the years ended March 31, 2019, 2018, and 2017 and the selected consolidated balance sheet data as of March 31, 2019 and 2018 are derived from our audited consolidated financial statements included elsewhere in this Form 10-K. The following selected

consolidated income statement data for the years ended March 31, 2016 and 2015, and the selected consolidated balance sheet data as of March 31, 2017, 2016 and 2015 are derived from our audited consolidated financial statements not included in this Form 10-K. This information should be read in conjunction with, and is qualified by reference to, “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 and the consolidated financial statements and notes thereto in Part II, Item 8 of this Form 10-K. Our historical results are not necessarily indicative of the results to be expected in the future.

	Year Ended March 31,				
	2019	2018	2017	2016	2015
Income Statement Data	<i>(in thousands, except per share amounts)</i>				
Revenues					
Management and advisory fees	\$ 217,773	\$ 195,030	\$ 172,674	\$ 157,630	\$ 145,876
Incentive fees	34,406	49,003	7,146	23,167	9,509
Total revenues	252,179	244,033	179,820	180,797	155,385
Total expenses	147,955	121,080	103,705	118,963	87,022
Total other income (expense)	25,333	16,677	(1,361)	(5,113)	3,622
Income before income taxes	129,557	139,630	74,754	56,721	71,985
Income tax expense	30,560	33,333	316	869	483
Net income	98,997	106,297	74,438	55,852	71,502
Less: Income attributable to non-controlling interests	65,424	88,956	73,826	55,852	71,502
Net income attributable to Hamilton Lane Incorporated	\$ 33,573	\$ 17,341	\$ 612	\$ —	\$ —
Earnings per share of Class A common stock:					
Basic	\$ 1.41	\$ 0.94	\$ 0.03 ⁽¹⁾		
Diluted	\$ 1.40	\$ 0.93	\$ 0.03 ⁽¹⁾		
Dividends declared per share of Class A common stock	\$ 0.85	\$ 0.70	\$ —		
Non-GAAP Financial Measures					
Fee Related Earnings ⁽²⁾	89,901	81,223	72,252	70,381	63,396
Adjusted EBITDA ⁽²⁾	117,736	132,586	83,031	67,785	73,707
Other Data					
Compensation expense on deferred incentive fee revenue ⁽³⁾	—	—	—	20,348	—
Balance Sheet Data					
Cash and cash equivalents	\$ 49,357	\$ 47,596	\$ 32,286	\$ 68,584	\$ 67,089
Investments	154,491	137,253	120,147	102,749	103,360
Total assets	360,591	293,795	240,617	196,636	201,500
Deferred incentive fee revenue	3,704	6,245	45,166	45,166	1,960
Debt	70,954	84,162	84,310	243,317	107,719
Total liabilities	190,869	157,721	153,990	308,574	127,810
Total equity (deficit)	169,722	136,074	86,627	(111,938)	73,690
Total liabilities and equity	360,591	293,795	240,617	196,636	201,500

- (1) Represents earnings per share of Class A common stock and weighted-average shares of Class A common stock outstanding for the period from March 6, 2017 through March 31, 2017, the period following the Reorganization and IPO.
- (2) Adjusted EBITDA and Fee Related Earnings (“FRE”) are non-GAAP measures. For a further discussion of our non-GAAP measures and a reconciliation from GAAP financial measures to non-GAAP financial measures, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures” included in Part II, Item 7 of this Form 10-K.

- (3) In accordance with our accounting policy with respect to the recognition of incentive fee income, we did not recognize \$41.5 million in carried interest distributions received from specialized funds in fiscal 2016, as all contingencies had not been resolved. However, incentive fee compensation expense of \$20.3 million related to the receipt of this carried interest was recognized in fiscal 2016. We reduced the deferred incentive fee revenue balance in fiscal 2018 by \$38.9 million from the recognition of the deferred carried interest in that period. The \$20.3 million is separately presented above to highlight the incentive fee compensation expense for which we did not recognize the associated incentive fee revenue. The compensation expense on deferred incentive fee revenue comprises \$9.9 million of bonus and other revenue sharing allocations classified as base compensation and \$10.4 million of incentive fee compensation. We incurred additional incentive fee compensation expense of \$11.4 million in fiscal 2016 associated with incentive fee revenue that is not reflected in this figure.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with our selected combined financial and operating data and the accompanying consolidated financial statements and related notes. See “Index to Consolidated Financial Statements of Hamilton Lane Incorporated.” The historical consolidated financial data discussed below reflect the historical results of operations and financial position of HLA prior to our IPO in February 2017. The consolidated financial statements of HLA, our predecessor for accounting purposes, are our historical financial statements for this Form 10-K.

The following discussion may contain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this Form 10-K, particularly in “Risk Factors” and the “Cautionary Note Regarding Forward-Looking Information.” Unless otherwise indicated, references in this Annual Report on Form 10-K to fiscal 2019, fiscal 2018 and fiscal 2017 are to our fiscal years ended March 31, 2019, 2018 and 2017, respectively.

Business Overview

We are a global private markets investment solutions provider. We offer a variety of investment solutions to address our clients’ needs across a range of private markets, including private equity, private credit, real estate, infrastructure, natural resources, growth equity and venture capital. These solutions are constructed from a range of investment types, including primary investments in funds managed by third-party managers, direct/co-investments alongside such funds and acquisitions of secondary stakes in such funds, with a number of our clients utilizing multiple investment types. These solutions are offered in a variety of formats covering some or all phases of private markets investment programs:

- *Customized Separate Accounts:* We design and build customized portfolios of private markets funds and direct investments to meet our clients’ specific portfolio objectives with regard to return, risk tolerance, diversification and liquidity. We generally have discretionary investment authority over our customized separate accounts, which comprised approximately \$50 billion of our AUM as of March 31, 2019.
- *Specialized Funds:* We organize, invest and manage specialized primary, secondary and direct/co-investment funds. Our specialized funds invest across a variety of private markets and include equity, equity-linked and credit funds offered on standard terms as well as shorter duration, opportunistically oriented funds. We launched our first specialized fund in 1997, and our product offerings have grown steadily, comprising approximately \$11 billion of our AUM as of March 31, 2019.
- *Advisory Services:* We offer investment advisory services to assist clients in developing and implementing their private markets investment programs. Our investment advisory services include asset allocation, strategic plan creation, development of investment policies and guidelines, the screening and recommending of investments, legal negotiations, the monitoring of and reporting on investments and investment manager review and due diligence. Our advisory clients include some of the largest and most sophisticated private markets investors in the world. We had approximately \$422 billion of AUA as of March 31, 2019.
- *Distribution Management:* We offer distribution management services to our clients through active portfolio management to enhance the realized value of publicly traded stock they receive as distributions from private equity funds.

- *Reporting, Monitoring, Data and Analytics:* We provide our clients with comprehensive reporting and investment monitoring services, usually bundled into our broader investment solutions offerings, but occasionally on a stand-alone, fee-for-service basis. Private markets investments are unusually difficult to monitor, report on and administer, and our clients are able to benefit from our sophisticated infrastructure, which provides clients with real time access to reliable and transparent investment data, and our high-touch service approach, which allows for timely and informed responses to the multiplicity of issues that can arise. We also provide comprehensive research and analytical services as part of our investment solutions, leveraging our large, global, proprietary and high-quality database of private markets investment performance and our suite of proprietary analytical investment tools.

Our client base primarily comprises institutional investors that range from those seeking to make an initial investment in alternative assets to some of the largest and most sophisticated private markets investors. As a highly customized, flexible outsourcing partner, we are equipped to provide investment services to institutional clients of all sizes and with different needs, internal resources and investment objectives. Our clients include prominent institutional investors in the United States, Europe, the Middle East, Asia, Australia and Latin America. We believe we are a leading provider of private markets solutions for U.S. labor union pension plans, and we serve numerous smaller public and corporate pension plans, sovereign wealth funds, financial institutions and insurance companies, endowments and foundations, as well as family offices and selected high-net-worth individuals.

Trends Affecting Our Business

Our results of operations are affected by a variety of factors, including conditions in the global financial markets and the economic and political environments, particularly in the United States, Western Europe and Asia. As interest rates remain near historic lows and public equities are not able to meet expected returns, we see increasing investor demand for alternative investments to achieve higher yields. As a result, some investors have increased their allocation to private markets relative to other asset classes. In addition, the opportunities in private markets have expanded as firms have created new vehicles and products in which to access private markets across different geographies and opportunity sets.

In addition to the aforementioned macroeconomic and sector-specific trends, we believe the following factors will influence our future performance:

- *The extent to which investors favor alternative investments.* Our ability to attract new capital is partially dependent on investors' views of alternative assets relative to traditional publicly listed equity and debt securities. We believe fundraising efforts will continue to be impacted by certain fundamental asset management trends that include: (1) the increasing importance and market share of alternative investment strategies to investors in light of an increased focus on lower-correlated and absolute levels of return; (2) the increasing demands of the investing community, including the potential for fee compression and changes to other terms; (3) shifting asset allocation policies of institutional investors; and (4) increasing barriers to entry and growth.
- *Our ability to generate strong returns.* We must continue to generate strong returns for our investors through our disciplined investment diligence process in an increasingly competitive market. The ability to attract and retain clients is partially dependent on returns we are able to deliver versus our peers. The capital we are able to attract drives the growth of our AUM and AUA and the management and advisory fees we earn.

- *Our ability to source investments with attractive risk-adjusted returns.* An increasing part of our management fee and incentive fee revenue has been from our co-investment and secondary investment platforms. The continued growth of this revenue is dependent on our continued ability to source attractive investments and deploy the capital that we have raised or manage on behalf of our clients. Because we are selective in the opportunities in which we invest, the capital deployed can vary from year to year. Our ability to identify attractive investments and execute on those investments is dependent on a number of factors, including the general macroeconomic environment, valuation, transaction size, and expected duration of such investment opportunity. A significant decrease in the quality or quantity of potential opportunities could adversely affect our ability to source investments with attractive risk-adjusted returns.
- *Our ability to maintain our data advantage relative to competitors.* We believe that the general trend towards transparency and consistency in private markets reporting will create new opportunities for us to leverage our databases and analytical capabilities. We intend to use these advantages afforded to us by our proprietary databases, analytical tools and deep industry knowledge to drive our performance, provide our clients with customized solutions across private markets asset classes and continue to differentiate our products and services from those of our competitors. Our ability to maintain our data advantage is dependent on a number of factors, including our continued access to a broad set of private market information on an on-going basis, as well as our ability to maintain our investment scale, considering the evolving competitive landscape and potential industry consolidation.
- *Our ability to continue to expand globally.* We believe that many institutional investors outside the United States are currently underinvested in private markets asset classes and that capturing capital inflows into private capital investing from non-U.S. global markets represents a significant growth opportunity for us. Our ability to continue to expand globally is dependent on our ability to continue building successful relationships with investors internationally and subject to the evolving macroeconomic and regulatory environment of the various countries where we operate or in which we invest.
- *Increased competition to work with top private equity fund managers.* There has been a trend amongst private markets investors to consolidate the number of general partners in which they invest. At the same time, an increasing flow of capital to the private markets has often times resulted in certain funds being oversubscribed. This has resulted in some investors, primarily smaller investors or less strategically important investors, not being able to gain access to certain funds. Our ability to invest and maintain our sphere of influence with these high-performing fund managers is critical to our investors' success and our ability to maintain our competitive position and grow our revenue.
- *Unpredictable global macroeconomic conditions.* Global economic conditions, including political environments, financial market performance, interest rates, credit spreads or other conditions beyond our control, all of which affect the performance of the assets underlying private market investments, are unpredictable and could negatively affect the performance of our clients' portfolios or the ability to raise funds in the future.
- *Increasing regulatory requirements.* The complex regulatory and tax environment could restrict our operations and subject us to increased compliance costs and administrative burdens, as well as restrictions on our business activities.

Recent Transactions

March 2019 Offering

In March 2019, we and a selling stockholder completed a registered offering of an aggregate of 1,449,303 shares of Class A common stock at a price of \$45.65 per share (the “March 2019 Offering”). The purpose of the March 2019 Offering was to provide liquidity to significant direct and indirect owners of HLA. The shares sold consisted of (i) 50,000 shares held by the selling stockholder and (ii) 1,399,303 newly issued shares by us. We received approximately \$63.9 million in net proceeds from the sale of our shares and used all of the proceeds to settle exchanges by certain members of HLA of a total of 711,943 Class B units and 687,360 Class C units. In connection with the exchange of the Class B units, we also repurchased for par value and canceled a corresponding number of shares of Class B common stock. We did not retain any proceeds from the sale of shares by the selling stockholder.

Operating Segments

We operate our business in a single segment, which is how our chief operating decision maker (who is our chief executive officer) reviews financial performance and allocates resources.

Key Financial and Operating Measures

Our key financial measures are discussed below.

Revenues

On April 1, 2018, we adopted the new Accounting Standards Codification 606, *Revenue from Contracts with Customers* (“ASC 606”), using the modified retrospective method. As a result, prior period amounts continue to be reported under legacy GAAP. The adoption did not change the historical pattern of recognizing revenue for management and advisory fees and incentive fees. See Note 2 to our consolidated financial statements for more information on our adoption of ASC 606.

We generate revenues primarily from management and advisory fees, and to a lesser extent, incentive fees. See “—Critical Accounting Policies—Revenue Recognition of Incentive Fees” and Note 2 of the consolidated financial statements included in Part II, Item 8 of this Form 10-K for additional information regarding the manner in which management and advisory fees and incentive fees are generated.

Management and advisory fees comprise specialized fund and customized separate account management fees, advisory and reporting fees and distribution management fees.

Revenues from customized separate accounts are generally based on a contractual rate applied to committed capital or net invested capital under management. These fees often decrease over the life of the contract due to built-in declines in contractual rates and/or as a result of lower net invested capital balances as capital is returned to clients. In certain cases, we also provide advisory and/or reporting services, and therefore we also receive fees for services such as monitoring and reporting on a client’s existing private markets investments. In addition, we may provide for investments in our specialized funds as part of our customized separate accounts. In these cases, we reduce the management fees on customized separate accounts to the extent that assets in the accounts are invested in our specialized funds so that our clients do not pay duplicate fees.

Revenues from specialized funds are based on a percentage of limited partners’ capital commitments to, or net invested capital in, our specialized funds. The management fee during the commitment period is generally charged on capital commitments and after the commitment period (or a defined anniversary of the fund’s initial closing) is reduced by a percentage of the management fee for the preceding year or

charged on net invested capital. In the case of certain funds, we charge management fees on capital commitments, with the management fee increasing during the early years of the fund's term and declining in the later years. Management fees for certain funds are discounted based on the amount of the limited partners' commitments or if the limited partners are investors in our other funds.

Revenues from advisory and reporting services are generally annual fixed fees, which vary depending on the services we provide. In limited cases, advisory service clients are charged basis point fees annually based on the amounts they have committed to invest pursuant to their agreements with us. In other cases where our services are limited to monitoring and reporting on investment portfolios, clients are charged a fee based on the number of investments in their portfolio.

Distribution management fees are generally earned by applying a percentage to AUM or proceeds received. Certain active management clients may elect a fee structure under which they are charged an asset-based fee plus a fee based on net realized and unrealized gains and income net of realized and unrealized losses.

Incentive fees comprise carried interest earned from our specialized funds and certain customized separate accounts structured as single-client funds in which we have a general partner commitment, and performance fees earned on certain other customized separate accounts.

For each of our secondary funds, direct/co-investment funds and credit funds, we earn carried interest equal to a fixed percentage of net profits, usually 10.0% to 12.5%, subject to a compounded annual preferred return that is generally 6.0% to 8.0%. To the extent that our primary funds also directly make secondary investments and direct/co-investments, they generally earn carried interest on a similar basis. Furthermore, certain of our primary funds earn carried interest on their investments in other private markets funds on a primary basis that is generally 5.0% of net profits, subject to the fund's compounded annual preferred return.

We recognize carried interest when it is probable that a significant reversal will not occur. In the event that a payment is made before it can be recognized as revenue, this amount would be included as deferred incentive fee revenue on our Consolidated Balance Sheet and recognized as income in accordance with our revenue recognition policy. The primary contingency regarding incentive fees is the "clawback," or the obligation to return distributions in excess of the amount prescribed by the applicable fund or separate account documents.

Performance fees, which are a component of incentive fees, are based on the aggregate amount of realized gains earned by the applicable customized separate account, subject to the achievement of defined minimum returns to the clients. Performance fees range from 5.0% to 12.5% of net profits, subject to a compounded annual preferred return that varies by account but is generally 6.0% to 8.0%. Performance fees are recognized when the risk of clawback or reversal is not probable.

Expenses

Compensation and benefits is our largest expense and consists of (a) base compensation comprising salary, bonuses and benefits paid and payable to employees, (b) equity-based compensation associated with the grants of restricted interest awards to senior employees and (c) incentive fee compensation which consists of carried interest and performance fee allocations. We expect to continue to experience a general rise in compensation and benefits expense commensurate with expected growth in headcount and with the need to maintain competitive compensation levels as we expand geographically and create new products and services.

Our compensation arrangements with our employees contain a significant bonus component driven by the results of our operations. Therefore, as our revenues, profitability and the amount of incentive fees earned by our customized separate accounts and specialized funds increase, our compensation costs rise.

Certain current and former employees participate in a carried interest program whereby approximately 25% of incentive fees from certain of our specialized funds and customized separate accounts are awarded to plan participants. We record compensation expense payable to plan participants as the incentive fees become estimable and collection is probable.

General, administrative and other includes travel, accounting, legal and other professional fees, commissions, placement fees, office expenses, depreciation and other costs associated with our operations. Our occupancy-related costs and professional services expenses, in particular, generally increase or decrease in relative proportion to the number of our employees and the overall size and scale of our business operations.

Other Income (Expense)

Equity in income (loss) of investees primarily represents our share of earnings from our investments in our specialized funds and certain customized separate accounts in which we have a general partner commitment. Equity income primarily comprises our share of the net realized and unrealized gains (losses) and investment income partially offset by the expenses from these investments.

We have general partner commitments in our specialized funds and certain customized separate accounts that invest solely in primary funds, secondary funds and direct/co-investments, as well as those that invest across investment types. Equity in income (loss) of investees will increase or decrease as the change in underlying fund investment valuations increases or decreases. Since our direct/co-investment funds invest in underlying portfolio companies, their quarterly and annual valuation changes are more affected by individual company movements than our primary and secondary funds that have exposures across multiple portfolio companies in underlying private markets funds. Our specialized funds and customized separate accounts invest across industries, strategies and geographies, and therefore our general partner investments do not include any significant concentrations in a specific sector or area outside the United States.

Interest expense includes interest paid and accrued on our outstanding debt, along with the amortization of deferred financing costs, amortization of original issue discount and the write-off of deferred financing costs due to the repayment of previously outstanding debt.

Interest income is income earned on cash and cash equivalents.

Non-operating income (loss) consists primarily of gains and losses on certain investments and other non-recurring or non-cash items.

Fee-Earning AUM

We view fee-earning AUM as a metric to measure the assets from which we earn management fees. Our fee-earning AUM comprise assets in our customized separate accounts and specialized funds from which we derive management fees. We classify customized separate account revenue as management fees if the client is charged an asset-based fee, which includes the majority of our discretionary AUM accounts but also includes certain non-discretionary AUA accounts. Our fee-earning AUM is equal to the amount of capital commitments, net invested capital and NAV of our customized separate accounts and specialized funds depending on the fee terms. Substantially all of our customized separate accounts and specialized funds earn fees based on commitments or net invested capital, which are not affected by

market appreciation or depreciation. Therefore, revenues and fee-earning AUM are not significantly affected by changes in market value.

Our calculations of fee-earning AUM may differ from the calculations of other asset managers, and as a result, this measure may not be comparable to similar measures presented by other asset managers. Our definition of fee-earning AUM is not based on any definition that is set forth in the agreements governing the customized separate accounts or specialized funds that we manage.

Annual Consolidated Results of Operations

The following is a discussion of our consolidated results of operations for each of the years in the three-year period ended March 31, 2019. This information is derived from our accompanying consolidated financial statements prepared in accordance with GAAP.

	Year Ended March 31,		
	2019	2018	2017
(in thousands)			
Revenues			
Management and advisory fees	\$ 217,773	\$ 195,030	\$ 172,674
Incentive fees	34,406	49,003	7,146
Total revenues	252,179	244,033	179,820
Expenses			
Compensation and benefits	97,719	82,868	72,116
General, administrative and other	50,236	38,212	31,589
Total expenses	147,955	121,080	103,705
Other income (expense)			
Equity in income of investees	7,202	17,102	12,801
Interest expense	(3,039)	(5,989)	(14,565)
Interest income	255	528	320
Non-operating income	20,915	5,036	83
Total other income (expense)	25,333	16,677	(1,361)
Income before income taxes	129,557	139,630	74,754
Income tax expense	30,560	33,333	316
Net income	98,997	106,297	74,438
Less: Income attributable to non-controlling interests in general partnerships	564	2,448	1,192
Less: Income attributable to non-controlling interests in Hamilton Lane Advisors, L.L.C.	64,860	86,508	72,634
Net income attributable to Hamilton Lane Incorporated	\$ 33,573	\$ 17,341	\$ 612

Revenues

	Year Ended March 31,		
	2019	2018	2017
	(in thousands)		
Management and advisory fees			
Customized separate accounts	\$ 85,245	\$ 79,275	\$ 71,261
Specialized funds	93,056	83,151	74,675
Advisory	24,130	20,164	18,497
Reporting and other	8,805	8,064	5,301
Distribution management	4,525	4,376	2,940
Fund reimbursement revenue	2,012	—	—
Total management and advisory fees	217,773	195,030	172,674
Incentive fees	34,406	49,003	7,146
Total revenues	<u>\$ 252,179</u>	<u>\$ 244,033</u>	<u>\$ 179,820</u>

Year ended March 31, 2019 compared to year ended March 31, 2018

Total revenues increased \$8.1 million, or 3%, to \$252.2 million, for fiscal 2019 compared to fiscal 2018, due to an increase in management and advisory fees.

Management and advisory fees increased \$22.7 million, or 12%, to \$217.8 million for fiscal 2019 compared to fiscal 2018. Specialized funds revenue increased by \$9.9 million compared to the prior year, due primarily to a \$14.2 million increase in revenue from our latest co-investment fund, which added \$0.8 billion in fee-earning AUM in fiscal 2019, offset by \$5.8 million in retroactive fees from our latest secondary fund in fiscal 2018. Included in our latest co-investment fund's revenue for the year was \$1.7 million in retroactive fees. Retroactive fees are management fees earned in the current period from investors that commit to a specialized fund towards the end of the fundraising period and are required to pay a catch-up management fee as if they had committed to the fund at the first closing in a prior period. Customized separate accounts revenue increased \$6.1 million in fiscal 2019 due to a \$1.2 billion increase in fee-earning AUM from the addition of several new accounts and additional allocations from existing accounts during the fiscal year. Advisory and reporting fees increased \$4.6 million for fiscal 2019 compared to fiscal 2018 due primarily to the addition of new accounts as compared to the prior fiscal year. Fund reimbursement revenue increased \$2.0 million as a result of the new revenue recognition standards.

Incentive fees decreased \$14.6 million to \$34.4 million for fiscal 2019, due primarily to a \$23.9 million decrease from one of our co-investment funds that had recognized \$40.6 million of deferred incentive fees in the prior year period. This was partially offset by \$6.4 million from one of our customized separate accounts, which included the general partner catch-up in the current year period.

Year ended March 31, 2018 compared to year ended March 31, 2017

Total revenues increased \$64.2 million, or 36%, to \$244.0 million, for fiscal 2018 compared to fiscal 2017, due to higher incentive fees and management and advisory fees.

Management and advisory fees increased \$22.4 million, or 13%, to \$195.0 million for fiscal 2018 compared to fiscal 2017. This increase was driven by specialized funds revenue, which increased by \$8.5 million compared to the prior year, due primarily to a \$7.5 million increase in revenue from our latest secondary fund, which added \$0.5 billion in fee-earning AUM in fiscal 2018. Included in our latest

secondary fund's revenue for the period was \$5.8 million in retroactive fees compared to \$2.9 million in retroactive fees in the prior year period. Retroactive fees are management fees earned in the current period from investors that commit to a specialized fund towards the end of the fundraising period and are required to pay a catch-up management fee as if they had committed to the fund at the first closing in a prior period. Customized separate accounts revenue increased \$7.9 million in fiscal 2018 due to a \$2.9 billion increase in fee-earning AUM from the addition of several new accounts and additional allocations from existing accounts during the fiscal year. Customized separate account revenue for fiscal 2018 included \$1.4 million from accounts added in the fiscal 2018 acquisition of Real Asset Portfolio Management LLC ("RAPM"). Advisory and reporting fees increased \$4.6 million for fiscal 2018 compared to fiscal 2017 due primarily to the addition of new accounts as compared to the prior fiscal year. Distribution management revenue increased \$1.4 million in fiscal 2018 compared to the prior year due to higher stock distribution activity and the related fees earned from this business.

Incentive fees increased \$41.9 million to \$49.0 million for fiscal 2018, due primarily to \$40.6 million of deferred incentive fees recognized, which related to one of our co-investment funds in the period. The \$40.6 million recognition of carried interest did not result in cash incentive fee payments for the period, as \$1.7 million was attributable to non-controlling interests and \$38.9 million was related to the \$41.5 million of incentive fee payments that were received in fiscal 2016 but were not recognized as revenue in that period.

Expenses

Year ended March 31, 2019 compared to year ended March 31, 2018

Total expenses increased \$26.9 million, or 22%, for fiscal 2019 compared to fiscal 2018 due to increases in base compensation and general, administrative and other expenses.

Compensation and benefits expenses increased \$14.9 million, or 18%, to \$97.7 million for fiscal 2019 compared to fiscal 2018, due to increased base compensation and contingent compensation related to the acquisition of RAPM in fiscal 2018. Compensation increased \$6.3 million, or 9%, for fiscal 2019 compared to fiscal 2018, due primarily to higher bonus expense related to the increase in cash incentive fee revenue. Contingent compensation related to the RAPM acquisition increased \$1.7 million for fiscal 2019 compared to fiscal 2018. Incentive compensation increased \$6.0 million for fiscal 2019 compared to fiscal 2018 due to the increase in cash incentive fee revenue. Equity-based compensation increased \$0.8 million, or 15%, for fiscal 2019 compared to fiscal 2018 as a result of the amortization of equity awards, which have increased in recent years.

General, administrative and other expenses increased \$12.0 million for fiscal 2019 compared to fiscal 2018. This change consisted primarily of a \$4.6 million increase in fund reimbursement expenses that are now recorded on a gross basis under the new revenue recognition standard and a \$3.5 million increase in consulting and professional fees, which included \$1.5 million in fees related to Private Market Connect ("PMC"), our new joint venture, as well as increases in legal and recruiting fees.

Year ended March 31, 2018 compared to year ended March 31, 2017

Total expenses increased \$17.4 million, or 17%, for fiscal 2018 compared to fiscal 2017 due to increases in base compensation and general, administrative and other expenses.

Compensation and benefits expenses increased \$10.8 million, or 15%, to \$82.9 million for fiscal 2018 compared to fiscal 2017, due to increased base compensation and contingent compensation related to the acquisition of RAPM in fiscal 2018. Base compensation increased \$6.2 million, or 9%, for fiscal 2018 compared to fiscal 2017, due primarily to increased salary expense from additional headcount in the

current year period compared to the prior year period. Contingent compensation related to the RAPM acquisition was \$3.4 million for fiscal 2018. Incentive compensation increased \$0.3 million for fiscal 2017 compared to fiscal 2016 due to increased incentive fee revenue. Equity-based compensation increased \$0.9 million, or 18%, for fiscal 2018 compared to fiscal 2017 as a result of the amortization of equity awards, which have increased in recent years. The \$82.9 million of compensation expense reported above excludes compensation expense related to the \$40.6 million recognition of incentive fees from one of our co-investment funds. The compensation expense related to these incentive fees was recognized in fiscal 2016 when the incentive fee payments were received. Of the \$10.4 million of incentive fee compensation and the \$9.9 million of base compensation and benefits recognized in advance of the associated revenue in fiscal 2016, \$10.2 million and \$9.8 million, respectively, was related to the \$40.6 million of incentive fees recognized in this period.

General, administrative and other expenses increased \$6.6 million for fiscal 2018 compared to fiscal 2017. This change consisted primarily of a \$4.2 million increase in consulting and professional fees, which included \$3.6 million in fees related to PMC, as well as increases in legal and recruiting fees.

Other Income (Expense)

The following shows the equity in income (loss) of investees included in other income (expense):

	Year Ended March 31,		
	2019	2018	2017
(in thousands)			
Equity in income of investees			
Primary funds	\$ 1,594	\$ 2,516	\$ 2,060
Direct/co-investment funds	2,201	5,915	4,652
Secondary funds	1,282	2,088	1,275
Customized separate accounts	2,328	7,071	5,125
Other equity method investments	(203)	(488)	(311)
Total equity in income of investees	<u>\$ 7,202</u>	<u>\$ 17,102</u>	<u>\$ 12,801</u>

Year ended March 31, 2019 compared to year ended March 31, 2018

Other income (expense) increased \$8.7 million to \$25.3 million for fiscal 2019 compared to fiscal 2018 due primarily to an increase in non-operating income and a decrease in interest expense partially offset by a decrease in gains from our investments.

Equity in income of investees decreased \$9.9 million to \$7.2 million for fiscal 2019 compared to fiscal 2018 due to lower overall valuation gains compared to the prior year. This decrease was due primarily to a \$4.7 million decrease in gains across our customized separate accounts, a \$3.7 million decrease in gains in our direct/co-investment fund products and a \$0.9 million decrease in gains in our primary fund products.

Interest expense decreased \$3.0 million, or 49%, to \$3.0 million for fiscal 2019 compared to fiscal 2018, due primarily to a \$1.7 million write-off of deferred financing costs and a \$0.9 million reclassification of an unrealized loss on interest rate caps to a realized loss as part of our predecessor credit facility in the prior year period.

Non-operating income increased \$15.9 million to \$20.9 million for fiscal 2019 compared to fiscal 2018 due to \$11.1 million in gains on the sales of two technology investments during the period and a \$10.1 million decrease to our liability under the tax receivable agreement (“TRA liability”) as a result of a re-measurement related to changes in state tax rate estimates. This was partially offset by a \$5.1 million decrease to the TRA liability in the prior year period due to the re-measurement related to the change in federal tax rates enacted by the Tax Act.

Year ended March 31, 2018 compared to year ended March 31, 2017

Other income (expense) increased \$18.0 million to \$16.7 million for fiscal 2018 compared to fiscal 2017 due primarily to a decrease in interest expense, an increase in gains from our investments and an increase in non-operating income.

Equity in income of investees increased \$4.3 million to \$17.1 million for fiscal 2018 compared to fiscal 2017 due to higher overall valuation gains compared to the prior year. This increase was due to a \$1.9 million increase in gains across our customized separate accounts, a \$1.3 million increase in gains in our direct/co-investment fund products and a \$0.8 million increase in gains in our secondary fund products.

Interest expense decreased \$8.6 million, or 59%, to \$6.0 million for fiscal 2018 compared to fiscal 2017 due to a reduction in our debt balance between periods driven by the \$160.0 million paydown using proceeds of our IPO. Included in the \$6.0 million in interest expense for fiscal 2018 is a \$1.7 million write-off of deferred financing costs and a \$0.9 million reclassification of an unrealized loss on interest rate caps to a realized loss as part of the payoff of our predecessor credit facility during the period. This was offset by a \$3.4 million write-off of deferred financing costs related to the \$160.0 million paydown of the predecessor credit facility in the prior year.

Non-operating income increased \$5.0 million to \$5.0 million for fiscal 2018 compared to fiscal 2017 due primarily to a \$5.0 million decrease to the TRA liability in the prior year period due to the re-measurement related to the change in federal tax rates enacted by the Tax Act.

Income Tax Expense

Income tax expense reflects U.S. federal and applicable state income taxes with respect to our allocable share of any taxable income of HLA subsequent to the Reorganization.

Our effective income tax rate in fiscal 2019, 2018 and 2017 was 23.6%, 23.9%, and 0.4%, respectively. The effective income tax rate in fiscal 2019 was primarily impacted by the portion of income allocated to non-controlling interests and revaluation of deferred tax assets related to changes in state income tax apportionment as well as a tax rate reduction due to the Tax Act.

Fee-Earning AUM

The following table provides the period to period roll-forward of our fee-earning AUM.

	Year Ended March 31,			Year Ended March 31,		
	2019			2018		
(in millions)						
	Customized Separate Accounts	Specialized Funds	Total	Customized Separate Accounts	Specialized Funds	Total
Balance, beginning of period	\$ 20,931	\$ 9,758	\$ 30,689	\$ 18,028	\$ 8,793	\$ 26,821
Contributions ⁽¹⁾	4,992	2,238	7,230	5,341	2,021	7,362
Distributions ⁽²⁾	(3,643)	(553)	(4,196)	(3,116)	(1,055)	(4,171)
Foreign exchange, market value and other ⁽³⁾	(120)	(9)	(129)	678	(1)	677
Balance, end of period	\$ 22,160	\$ 11,434	\$ 33,594	\$ 20,931	\$ 9,758	\$ 30,689

- (1) Contributions represent new commitments from customized separate accounts and specialized funds that earn fees on a committed capital fee base and capital contributions to underlying investments from customized separate accounts and specialized funds that earn fees on a net invested capital or NAV fee base.
- (2) Distributions represent returns of capital in customized separate accounts and specialized funds that earn fees on a net invested capital or NAV fee base, reductions in fee-earning AUM from separate accounts and specialized funds that moved from a committed capital to net invested capital fee base and reductions in fee-earning AUM from customized separate accounts and specialized funds that are no longer earning fees.
- (3) Foreign exchange, market value and other consists primarily of the impact of foreign exchange rate fluctuations for customized separate accounts and specialized funds that earn fees on non-U.S. dollar denominated commitments and market value appreciation (depreciation) from customized separate accounts that earn fees on a NAV fee base.

Year ended March 31, 2019 compared to year ended March 31, 2018

Fee-earning AUM increased \$2.9 billion, or 9%, to \$33.6 billion for fiscal 2019, due primarily to new specialized funds and customized separate accounts commitments.

Customized separate accounts fee-earning AUM increased \$1.2 billion, or 6%, to \$22.2 billion for fiscal 2019. Customized separate accounts contributions were \$5.0 billion for fiscal 2019 due to new allocations from existing clients and new clients. Distributions were \$3.6 billion for fiscal 2019 due to \$1.3 billion from accounts moving from a committed capital to a net invested fee base as their investment period expired, \$1.6 billion from accounts reaching the end of their account term and \$0.7 billion from returns of capital in accounts earning fees on a net invested capital or NAV fee base.

Specialized funds fee-earning AUM increased \$1.7 billion, or 17%, to \$11.4 billion for fiscal 2019. Specialized fund contributions were \$2.2 billion for fiscal 2019 due primarily to \$0.8 billion in new commitments to our co-investment fund in market during the period and \$1.1 billion from accounts earning fees on a net invested capital fee base. Distributions were \$0.6 billion for fiscal 2019 due to \$0.5 billion from returns of capital in accounts earning fees on a net invested capital fee base.

Year ended March 31, 2018 compared to year ended March 31, 2017

Fee-earning AUM increased \$3.9 billion, or 14%, to \$30.7 billion for fiscal 2018, due primarily to new specialized funds and customized separate accounts commitments.

Customized separate accounts fee-earning AUM increased \$2.9 billion, or 16%, to \$20.9 billion for fiscal 2018. Customized separate accounts contributions were \$5.3 billion for fiscal 2018 due to new allocations from existing clients and new clients. Distributions were \$3.1 billion for fiscal 2018 due to \$1.3 billion from accounts moving from a committed capital to a net invested fee base as their investment

period expired, \$1.0 billion from accounts reaching the end of their account term and \$0.8 billion from returns of capital in accounts earning fees on a net invested capital or NAV fee base.

Specialized funds fee-earning AUM increased \$1.0 billion, or 11%, to \$9.8 billion for fiscal 2018. Specialized fund contributions were \$2.0 billion for fiscal 2018 due primarily to \$0.5 billion in new commitments to our secondary fund and \$0.6 billion from our co-investment fund in market during the period. Distributions were \$1.1 billion for fiscal 2018 due to \$0.4 billion from returns of capital in accounts earning fees on a net invested capital fee base, \$0.4 billion from accounts moving from a committed capital to a net invested fee base as their investment period expired and \$0.2 billion from accounts reaching the end of their account term.

Non-GAAP Financial Measures

Below is a description of our unaudited non-GAAP financial measures. These are not measures of financial performance under GAAP and should not be considered a substitute for the most directly comparable GAAP measures, which are reconciled below. These measures have limitations as analytical tools, and when assessing our operating performance, you should not consider these measures in isolation or as a substitute for GAAP measures. Other companies may calculate these measures differently than we do, limiting their usefulness as a comparative measure.

Adjusted EBITDA

Adjusted EBITDA is our primary internal measure of profitability. We believe Adjusted EBITDA is useful to investors because it enables them to better evaluate the performance of our core business across reporting periods. Adjusted EBITDA represents net income excluding (a) interest expense on our outstanding debt, (b) income tax expense, (c) depreciation and amortization expense, (d) equity-based compensation expense, (e) other non-operating income and (f) certain other significant items that we believe are not indicative of our core performance.

Fee Related Earnings

Fee Related Earnings (“FRE”) is used to highlight earnings of the Company from recurring management fees. FRE represents net income excluding (a) incentive fees and related compensation, (b) interest income and expense, (c) income tax expense, (d) equity in income of investees, (e) other non-operating income and (f) certain other significant items that we believe are not indicative of our core performance. We believe FRE is useful to investors because it provides additional insight into the operating profitability of our business. FRE is presented before income taxes.

The following table shows a reconciliation of net income attributable to Hamilton Lane Incorporated to Fee Related Earnings and Adjusted EBITDA for fiscal 2019, 2018, 2017, 2016 and 2015:

	Year Ended March 31,				
	2019	2018	2017	2016	2015
(in thousands)					
Net income attributable to Hamilton Lane Incorporated ⁽¹⁾	\$ 33,573	\$ 17,341	\$ 612	\$ —	\$ —
Income (loss) attributable to non-controlling interests in general partnerships	564	2,448	1,192	(1,255)	2,242
Income attributable to non-controlling interests in Hamilton Lane Advisors, L.L.C.	64,860	86,508	72,634	57,107	69,260
Incentive fees ⁽²⁾	(34,406)	(49,003)	(7,146)	(23,167)	(9,509)
Incentive fee related compensation ⁽³⁾	14,983	3,874	3,283	31,714	4,542
Interest income	(255)	(528)	(320)	(194)	(87)
Interest expense	3,039	5,989	14,565	12,641	5,883
Income tax expense	30,560	33,333	316	869	483
Equity in income of investees	(7,202)	(17,102)	(12,801)	(1,518)	(10,474)
Contingent compensation related to acquisition	5,100	3,399	—	—	—
Non-operating (income) loss	(20,915)	(5,036)	(83)	(5,816)	1,056
Fee Related Earnings	\$ 89,901	\$ 81,223	\$ 72,252	\$ 70,381	\$ 63,396
Depreciation and amortization	2,500	1,891	1,915	2,027	1,867
Equity-based compensation	6,382	5,544	4,681	3,730	3,390
Incentive fees ⁽²⁾	34,406	49,003	7,146	23,167	9,509
Incentive fees attributable to non-controlling interests ⁽²⁾	(725)	(1,729)	—	—	—
Incentive fee related compensation ⁽³⁾	(14,983)	(3,874)	(3,283)	(31,714)	(4,542)
Interest income	255	528	320	194	87
Adjusted EBITDA	\$117,736	\$132,586	\$ 83,031	\$ 67,785	\$ 73,707

- (1) Prior to our IPO, HLI was a wholly-owned subsidiary of HLA with no operations or assets.
- (2) Incentive fees for the year ended March 31, 2019 included \$3.2 million of non-cash carried interest. Of the \$3.2 million, \$2.5 million is included in net income and \$0.7 million is attributable to non-controlling interests. Incentive fees for the year ended March 31, 2018 included \$40.6 million of non-cash carried interest. Of the \$40.6 million, \$38.9 million is included in net income and \$1.7 million is attributable to non-controlling interests.
- (3) Incentive fee related compensation includes incentive fee compensation expense, bonus and other revenue sharing related to carried interest that is classified as base compensation. Incentive fee related compensation for the years ended March 31, 2019 and 2018 excludes compensation expense related to the recognition of incentive fees included in net income from one of our co-investment funds of \$2.5 million and \$38.9 million, respectively, as the related incentive fee compensation was recognized in fiscal 2016.

Non-GAAP Earnings Per Share

Non-GAAP earnings per share measures our per-share earnings excluding certain items that we believe are not indicative of our core performance and assuming all Class B and Class C units in HLA were exchanged for Class A common stock in HLI. Non-GAAP earnings per share is calculated as adjusted net income divided by adjusted shares outstanding. Adjusted net income is income before taxes fully taxed at our estimated statutory tax rate. We believe Non-GAAP earnings per share is useful to investors because it enables them to better evaluate per-share operating performance across reporting periods.

The following table shows a reconciliation of adjusted net income to net income attributable to Hamilton Lane Incorporated and adjusted shares outstanding to weighted-average shares of Class A common stock outstanding for fiscal 2019, 2018 and 2017.

	Year Ended March 31,		
	2019	2018	2017
(in thousands, except share and per-share amounts)			
Net income attributable to Hamilton Lane Incorporated	\$ 33,573	\$ 17,341	\$ 612
Income attributable to non-controlling interests in Hamilton Lane Advisors, L.L.C.	64,860	86,508	72,634
Income tax expense	30,560	33,333	316
Write-off of deferred financing costs ⁽¹⁾	—	2,544	3,359
Impact of Tax Act on TRA liability ⁽²⁾	—	(4,964)	—
IPO related compensation including impact of Tax Act ⁽³⁾	—	(669)	1,935
Contingent compensation related to acquisition	5,100	3,399	—
Adjusted pre-tax net income	\$ 134,093	\$ 137,492	\$ 78,856
Adjusted income taxes ⁽⁴⁾	(32,048)	(50,432)	(31,732)
Adjusted net income	\$ 102,045	\$ 87,060	\$ 47,124
Weighted-average shares of Class A common stock outstanding - diluted	24,298,795	18,990,369	18,341,079
Exchange of Class B and Class C units in HLA ⁽⁵⁾	29,040,205	34,112,983	34,438,669
Adjusted shares outstanding	53,339,000	53,103,352	52,779,748
Non-GAAP earnings per share	\$ 1.91	\$ 1.64	\$ 0.89

- (1) Represents write-off of debt issuance costs and realized loss on interest rate caps related to the payoff of our predecessor credit facility in the prior year period.
- (2) Represents gain recorded as a result of re-measurement due to lower federal tax rates. The gain was recorded to non-operating income in the Consolidated Statements of Income.
- (3) Represents accrual of one-time payments to induce members of HLA to exchange their HLA units for HLI common stock in the Reorganization during the year ended March 31, 2017 and the change in the expense accrual due to the impact of tax rate changes pursuant to enactment of the Tax Act during the year ended March 31, 2018.
- (4) For the year ended March 31, 2019, represents corporate income taxes at our estimated statutory tax rate of 23.9% applied to adjusted pre-tax net income. The 23.9% is based on a federal tax statutory rate of 21.0% and a combined state income tax rate net of federal benefits of 2.9%. For the year ended March 31, 2018, represents corporate income taxes at an assumed effective tax rate of 36.7%. The 36.7% is based on a blended federal tax statutory rate of 35.0% for 275 days and 21.0% for 90 days and a combined state income tax rate net of federal benefits of 5.1%. Represents corporate income taxes at assumed effective tax rate of 40.24% for the year ended March 31, 2017. The 40.24% is based on a federal tax statutory rate of 35.00% and a combined state income tax rate net of federal benefits of 5.24%.
- (5) Assumes the full exchange of Class B and Class C units in HLA for Class A common stock of HLI pursuant to the exchange agreement.

Liquidity and Capital Resources

Historical Liquidity and Capital Resources

We have managed our historical liquidity and capital requirements primarily through the receipt of management and advisory fee revenues. Our primary cash flow activities involve: (1) generating cash flow from operations, which largely includes management and advisory fees; (2) realizations generated from our investment activities; (3) funding capital commitments that we have made to certain of our specialized funds and customized separate accounts; (4) making distributions to HLA unitholders; (5) paying dividends; and (6) borrowings, interest payments and repayments under our outstanding debt. As of March 31, 2019 and March 31, 2018, our cash and cash equivalents, including investments in money market funds, were \$49.4 million and \$47.6 million, respectively.

Our material sources of cash from our operations include: (1) management and advisory fees, which are collected monthly or quarterly; (2) incentive fees, which are volatile and largely unpredictable as to amount and timing; and (3) fund distributions related to investments in our specialized funds and certain customized separate accounts that we manage. We use cash flow from operations primarily to pay compensation and related expenses, general, administrative and other expenses, debt service, capital expenditures and distributions to our owners. We also use our cash flows to fund commitments to certain of our specialized funds and customized separate accounts. If cash flow from operations were insufficient to fund distributions to our owners, we expect that we would suspend paying such distributions.

Term Loan and Revolving Credit Facility

In August 2017, we entered into the Term Loan Agreement and the Revolving Loan Agreement with First Republic. Proceeds from the Loan Agreements were utilized to pay off the outstanding principal amount and accrued interest of the predecessor credit facility.

The Term Loan Agreement provides for a term loan facility in an aggregate principal amount of \$75.0 million and also contains an accordion feature that allows HLA to increase the commitment under the facility by up to \$25.0 million under certain conditions (the “Term Loan Facility”). Borrowings under the Term Loan Facility accrue interest at a floating per annum rate equal to the greater of (i) the prime rate minus 1.25% and (ii) 2.75%. The Term Loan Facility matures on November 1, 2024.

The Revolving Loan Agreement provides for a revolving credit facility up to an aggregate principal amount of \$25.0 million (the “Revolving Loan Facility”). The Revolving Loan Facility is for working capital and general corporate purposes. Borrowings under the Revolving Loan Facility accrue interest at a floating per annum rate equal to the greater of (i) the prime rate minus 1.50% and (ii) 2.50%. The Revolving Loan Facility matures on August 21, 2020 and requires compliance with conditions precedent that must be satisfied prior to any borrowing.

The Loan Agreements contain covenants that, among other things, limit HLA's ability to incur indebtedness, transfer or dispose of assets, merge with other companies, create, incur or allow liens, make investments, pay dividends or make distributions, engage in transactions with affiliates and take certain actions with respect to management fees. The Loan Agreements also require HLA to maintain, among other requirements, (i) a specified amount of management fees in each fiscal year during the term of each of the Loan Agreements, (ii) adjusted EBITDA, as defined in the Loan Agreements, less dividend distributions on a trailing six-month basis of \$12.5 million or greater, tested semi-annually, and (iii) a specified tangible net worth during each fiscal year during the term of each of the Loan Agreements. The obligations under the Loan Agreements are secured by substantially all the assets of HLA. As of March 31, 2019 and 2018, the principal amount of debt outstanding equaled \$71.3 million and \$84.5 million, respectively.

Cash Flows

Years ended March 31, 2019, 2018 and 2017

	Year Ended March 31,		
	2019	2018	2017
	(in thousands)		
Net cash provided by operating activities	\$ 111,622	\$ 96,692	\$ 81,679
Net cash used in investing activities	(19,213)	(21,773)	(16,715)
Net cash used in financing activities	(90,210)	(59,671)	(101,211)
Effect of exchange rate changes on cash and cash equivalents	8	—	—
Increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ 2,207</u>	<u>\$ 15,248</u>	<u>\$ (36,247)</u>

Operating Activities

Net cash provided by operating activities was \$111.6 million, \$96.7 million and \$81.7 million during fiscal 2019, 2018 and 2017, respectively. These operating cash flows were driven primarily by:

- net income of \$99.0 million, \$106.3 million and \$74.4 million during fiscal 2019, 2018 and 2017, respectively;
- change in payable to related parties pursuant to tax receivable agreement of \$9.8 million and \$5.1 million during fiscal 2019 and 2018, respectively, due to the additional deferred tax assets recorded;
- equity in income of investees of \$7.2 million, \$17.1 million, and \$12.8 million during fiscal 2019, 2018 and 2017, respectively, due to our share of the income of our equity method investments;
- proceeds received from investments of \$14.1 million, \$14.4 million, and \$10.8 million during fiscal 2019, 2018 and 2017, respectively, which represent a return on investment from specialized funds and certain customized separate accounts;
- change in deferred incentive fee revenue of \$2.5 million and \$38.9 million during fiscal 2019 and 2018, respectively, due to the recognition of previously deferred incentive fee revenue that was received and deferred during fiscal 2016 due to continuing contingencies; and
- net change in operating assets and liabilities of (\$2.0) million, \$3.6 million, and (\$1.7) million during fiscal 2019, 2018 and 2017, respectively.

Investing Activities

Our net cash flow used in investing activities was \$19.2 million, \$21.8 million and \$16.7 million during fiscal 2019, 2018 and 2017, respectively. These amounts were driven primarily by:

- contributions to investments, net of distributions received from investments, of \$35.4 million, \$14.3 million and \$15.4 million during fiscal 2019, 2018 and 2017, respectively;
- Proceeds from the sales of other investments of \$22.5 million during fiscal 2019;
- cash paid for the acquisition of a business of \$5.2 million during fiscal 2018; and
- purchases of furniture, fixtures and equipment consisting primarily of computers and equipment and costs associated with the build out of office space totaling \$5.4 million, \$2.3 million and \$1.3 million during fiscal 2019, 2018 and 2017, respectively.

Financing Activities

Our net cash flow used in financing activities was \$90.2 million, \$59.7 million and \$101.2 million during fiscal 2019, 2018 and 2017, respectively. Cash used in financing activities was attributable primarily to:

- debt repayments of \$13.3 million, \$87.0 million and \$162.6 million during fiscal 2019, 2018 and 2017, respectively;
- debt issuances net of deferred financing costs of \$85.1 million during fiscal 2018;
- proceeds from our IPO, net of underwriting discount, of \$203.2 million, along with deferred offering costs paid of \$5.8 million in fiscal 2017;
- purchases of equity interests and restricted stock of \$5.4 million, \$6.5 million and \$58.1 million in fiscal 2019, 2018 and 2017, respectively;
- dividends paid of \$18.7 million and \$9.5 million during fiscal 2019 and 2018, respectively; and
- distributions to equity holders of \$50.6 million, \$36.9 million and \$80.5 million during the years ended March 31, 2019, 2018 and 2017, respectively.

Future Sources and Uses of Liquidity

We generate significant cash flows from operating activities. We believe that we will be able to continue to meet our current and long-term liquidity and capital requirements through our cash flows from operating activities, existing cash and cash equivalents and our ability to obtain future external financing.

We expect that our primary current and long-term liquidity needs will comprise cash to (1) provide capital to facilitate the growth of our business, (2) fund commitments to our investments, (3) pay operating expenses, including cash compensation to our employees, (4) make payments under the tax receivable agreement, (5) fund capital expenditures, (6) pay interest and principal due on our Term Loan, (7) pay income taxes, and (8) make distributions to our stockholders and holders of HLA units in accordance with our distribution policy.

We are required to maintain minimum net capital balances for regulatory purposes for our Hong Kong, United Kingdom and broker-dealer subsidiaries. These net capital requirements are met by

retaining cash. As a result, we may be restricted in our ability to transfer cash between different operating entities and jurisdictions. As of March 31, 2019, we were required to maintain approximately \$2.2 million million in liquid net assets within these subsidiaries to meet regulatory net capital and capital adequacy requirements. We are in compliance with these regulatory requirements.

Dividend Policy

The declaration and payment by us of any future dividends to holders of our Class A common stock is at the sole discretion of our board of directors. We intend to continue to pay a cash dividend on a quarterly basis. Subject to funds being legally available, we will cause HLA to make pro rata distributions to its members, including us, in an amount at least sufficient to allow us to pay all applicable taxes, to make payments under the tax receivable agreement, and to pay our corporate and other overhead expenses.

Tax Receivable Agreement

We expect that exchanges of membership units of HLA by members of HLA, as well as our initial purchase of membership units of HLA with the net proceeds from our IPO from certain existing direct and indirect HLA members, will result in increases in the tax basis in our share of the assets of HLA that otherwise would not have been available. These increases in tax basis are expected to increase our depreciation and amortization deductions and create other tax benefits and therefore may reduce the amount of tax that we would otherwise be required to pay in the future. The tax receivable agreement will require us to pay 85% of the amount of these and certain other tax benefits, if any, that we realize (or are deemed to realize in the case of an early termination payment, a change in control or a material breach by us of our obligations under the tax receivable agreement) to the existing direct and indirect members of HLA.

Off-Balance Sheet Arrangements

We do not invest in any off-balance sheet vehicles that provide liquidity, capital resources, market or credit risk support, or engage in any activities that expose us to any liability that is not reflected in our consolidated financial statements.

Contractual Obligations, Commitments and Contingencies

The following table represents our contractual obligations as of March 31, 2019, aggregated by type.

(in thousands)	Contractual Obligations, Commitments and Contingencies				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases	\$ 14,518	\$ 5,472	\$ 7,609	\$ 1,193	\$ 244
Debt obligations payable ⁽¹⁾	71,250	5,625	23,438	32,812	9,375
Interest on debt obligations payable ⁽²⁾	10,241	2,987	4,779	2,374	101
Capital commitments to our investments ⁽³⁾	123,637	123,637	—	—	—
Total	\$ 219,646	\$ 137,721	\$ 35,826	\$ 36,379	\$ 9,720

(1) Represents scheduled debt obligation payments under our Loan Agreements.

- (2) Represents interest to be paid over the maturity of the related debt obligations, which has been calculated assuming no pre-payments will be made and debt will be held until its final maturity date. The future interest payments are calculated using the variable interest rate of 4.25% on our Term Loan Agreement in effect as of March 31, 2019.
- (3) Represents commitments by us to fund a portion of each investment made by our specialized funds and certain customized separate account entities. These amounts are generally due on demand and are therefore presented in the less than one year category.

We have entered into a tax receivable agreement with our pre-IPO owners pursuant to which we will pay them 85% of the amount of tax benefits, if any, that we realize (or are deemed to realize in the case of an early termination payment by us, a change in control or a material breach by us of our obligations under the tax receivable agreement) as a result of increases in tax basis (and certain other tax benefits) resulting from purchases or exchanges of membership units of HLA. Because the timing of amounts to be paid under the tax receivable agreement cannot be determined, this contractual commitment has not been presented in the table above. The tax savings achieved may be substantial and we may not have sufficient cash available to pay this liability, in which case, we might be required to incur additional debt to satisfy this liability.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with GAAP. In applying many of these accounting principles, we need to make assumptions, estimates or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our combined and consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates or judgments, however, are both subjective and subject to change, and actual results may differ from our assumptions and estimates. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates or judgments. See Note 2, “Summary of Significant Accounting Policies,” to our consolidated financial statements included in Part II, Item 8 of this Form 10-K for a summary of our significant accounting policies.

Principles of Consolidation

We consolidate all entities that we control through a controlling financial interest or as the primary beneficiary of variable interest entities (“VIEs”).

Our policy is to perform an analysis to determine whether consolidation is required by determining if we have a variable interest in each entity and whether that entity is a VIE. We perform the variable interest analysis for all entities in which we have a potential variable interest, which consist primarily of our specialized funds and customized separate accounts where we serve as the general partner or managing member, and general partner entities not wholly owned by us. If we have a variable interest in the entity and the entity is a VIE, we will also analyze whether we are the primary beneficiary of this entity and whether consolidation is required.

In evaluating whether we hold a variable interest, we review the equity ownership to determine whether we absorb risk created and distributed by the entity, as well as whether the fees charged to the entity are customary and commensurate with the effort required to provide the services. We consider all economic interests, including indirect interests, to determine if a fee is considered a variable interest. For our specialized funds and customized separate accounts, our fee arrangements are not considered to be

variable interests. For those entities where we hold a variable interest, we determine whether each of these entities qualifies as a VIE and, if so, whether we are the primary beneficiary.

The assessment of whether the entity is a VIE requires an evaluation of qualitative factors and, where applicable, quantitative factors. These judgments include: (a) determining whether the equity investment at risk is sufficient to permit the entity to finance its activities without additional subordinated financial support, (b) evaluating whether the equity holders, as a group, can make decisions that have a significant effect on the economic performance of the entity, (c) determining whether two or more parties' equity interests should be aggregated, and (d) determining whether the equity investors have proportionate voting rights to their obligations to absorb losses or rights to receive returns from an entity. The entities that are VIEs were determined as such because the respective limited partners do not have the ability to remove the general partner or dissolve the respective fund or entity with a simple majority vote (i.e., the limited partners lack "kick out rights").

For entities that are determined to be VIEs, we are required to consolidate those entities where we have concluded that we are the primary beneficiary. The primary beneficiary is defined as the variable interest holder with (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. In evaluating whether we are the primary beneficiary, we evaluate our economic interests in the entity held either directly or indirectly by us. At each reporting date, we determine whether any reconsideration events have occurred that require us to revisit the primary beneficiary analysis, and we will consolidate or deconsolidate accordingly.

Revenue Recognition of Incentive Fees

Incentive fees include both carried interest earned from certain specialized funds and performance fees received from certain customized separate accounts.

Contracts with specialized funds and certain customized separate accounts provide incentive fees, which generally range from 5.0% to 12.5% of profits, when investment returns exceed minimum return levels or other performance targets on either an annual or inception to date basis and are generally payable after all contributed capital and the preferred return on that capital has been distributed to investors. Incentive fees are recognized when it is probable that a significant reversal will not occur. Investment returns are highly susceptible to market factors and judgments and actions of third parties that are outside of our control.

Incentive fees received by us before the revenue recognition criteria have been met are deferred and recorded as deferred incentive fee revenue in the Consolidated Balance Sheets.

Incentive Fee Compensation Expense

Incentive fee compensation expense includes compensation directly related to incentive fees. Certain employees are granted allocations or profit-sharing interests and are thereby, as a group, entitled to a 25% portion of the incentive fees earned from certain of our specialized funds and performance fees from certain customized separate accounts, subject to vesting. Amounts payable pursuant to these arrangements are recorded as a compensation expense when they have become probable and reasonably estimable. Our determination of the point at which it becomes probable and reasonably estimable is based on our assessment of numerous factors, particularly those related to the profitability, realization, distribution status, investment profile and commitments or contingencies of our specialized funds or customized separate accounts that may give rise to incentive fees. Incentive fee compensation may be expensed before the related incentive fee revenue is recognized.

Income Taxes

We account for income taxes using the asset and liability method. Deferred income taxes are recognized for the expected future tax consequences attributable to temporary differences between the carrying amount of the existing tax assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied in the years in which temporary differences are expected to be recovered or settled. The principal items giving rise to temporary differences are certain basis differences resulting from acquisitions and the recapitalization transactions. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

As a result of the Reorganization and IPO, HLI became the sole managing member of HLA, which is organized as a limited liability company and treated as a “flow-through” entity for income taxes purposes. As a “flow-through” entity, HLA is not subject to income taxes apart from foreign taxes attributable to its operations in foreign jurisdictions. Any taxable income or loss generated by HLA is passed through to and included in the taxable income or loss of its members, including HLI, on a pro rata basis. As a result, we do not record income taxes on pre-tax income or loss attributable to the non-controlling interests in the general partnerships and HLA, except for foreign taxes discussed above. HLI is subject to U.S. federal and applicable state corporate income taxes with respect to its allocable share of any taxable income of HLA.

We analyze our tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where we are required to file income tax returns, as well for all open tax years in these jurisdictions. We evaluate tax positions taken or expected to be taken in the course of preparing an entity’s tax returns to determine whether it is “more-likely-than-not” that each tax position will be sustained by the applicable tax authority.

Tax Receivable Agreement

Our purchase of HLA Class A units concurrent with the IPO, and subsequent exchanges by holders of HLA units for shares of our Class A common stock pursuant to the exchange agreement, result in increases in our share of the tax basis of the tangible and intangible assets of HLA, which increases the tax depreciation and amortization deductions that otherwise would not have been available to us. These increases in tax basis and tax depreciation and amortization deductions are expected to reduce the amount of cash taxes that we would otherwise be required to pay in the future. We entered into the tax receivable agreement with the other members of HLA, which requires us to pay exchanging HLA unitholders (the “TRA Recipients”) 85% of the amount of cash savings, if any, in U.S. federal, state, and local income tax that we actually realize (or, under certain circumstances, are deemed to realize) as a result of the increases in tax basis in connection with exchanges by the TRA Recipients described above and certain other tax benefits attributable to payments under the tax receivable agreement. Generally, if we do not generate sufficient cumulative taxable income in the future to utilize the tax benefits, then we will not be required to make the related tax receivable agreement payments - the exception being that our obligation to make such payments may be accelerated if we elect to terminate the tax receivable agreement, in whole or in part, or if a change in control of us, or a breach of the tax receivable agreement by us, occurs. Therefore, we will generally only recognize a liability for payments under the tax receivable agreement for financial reporting purposes to the extent we determine it is probable that we will generate sufficient future taxable income to utilize the related tax benefits. Estimating and projecting future taxable income is inherently uncertain and requires judgment. Actual taxable income may differ from estimates, which could significantly affect the liability under the tax benefit arrangements and our consolidated results of operations.

Based on current projections, we anticipate having sufficient taxable income to utilize these tax attributes and receive corresponding tax deductions in future periods. Changes in the projected liability resulting from the tax receivable agreement may occur based on changes in anticipated future taxable income, changes in applicable tax rates or other changes in tax attributes that may occur and could affect the expected future tax benefits to be received by us.

JOBS Act

We no longer qualify as an “emerging growth company” as defined in Section 2(a)(19) of the Securities Act, as modified by the JOBS Act as we are deemed to be a large accelerated filer effective as of March 31, 2019.

Recent Accounting Pronouncements

Information regarding recent accounting developments and their impact on our results can be found in Note 2, “Summary of Significant Accounting Policies” in the notes to the consolidated financial statements included in Part II, Item 8 of this Form 10-K.

Item 7A. Qualitative and Quantitative Disclosures about Market Risk

In the normal course of business, we are exposed to a broad range of risks inherent in the financial markets in which we participate, including price risk, interest-rate risk, access to and cost of financing risk, liquidity risk, counterparty risk and foreign exchange-rate risk. Potentially negative effects of these risks may be mitigated to a certain extent by those aspects of our investment approach, investment strategies, fundraising practices or other business activities that are designed to benefit, either in relative or absolute terms, from periods of economic weakness, tighter credit or financial market dislocations.

Our predominant exposure to market risk is related to our role as general partner or investment manager for our specialized funds and customized separate accounts and the sensitivities to movements in the fair value of their investments, which may adversely affect our equity in income of investees. Since our management fees are generally based on commitments or net invested capital, our management fee and advisory fee revenue is not significantly impacted by changes in investment values.

Fair value of the financial assets and liabilities of our specialized funds and customized separate accounts may fluctuate in response to changes in the value of securities, foreign currency exchange rates, commodity prices and interest rates. The impact of investment risk is as follows:

- Equity in income of investees changes along with the realized and unrealized gains of the underlying investments in our specialized funds and certain customized separate accounts in which we have a general partner commitment. Our general partner investments include over 3,000 unique underlying portfolio investments with no significant concentration in any industry or country outside of the United States.
- Management fees from our specialized funds and customized separate accounts are not significantly affected by changes in fair value as the management fees are not generally based on the value of the specialized funds or customized separate accounts, but rather on the amount of capital committed or invested in the specialized funds or customized separate accounts, as applicable.
- Incentive fees from our specialized funds and customized separate accounts are not materially affected by changes in the fair value of unrealized investments because they are based on realized

gains and subject to achievement of performance criteria rather than on the fair value of the specialized fund's or customized separate account's assets prior to realization. We had \$3.7 million of deferred incentive fee revenue on our balance sheet as of March 31, 2019. Minor decreases in underlying fair value would not affect the amount of deferred incentive fee revenue subject to clawback.

Exchange Rate Risk

Several of our specialized funds and customized separate accounts hold investments denominated in non-U.S. dollar currencies that may be affected by movements in the rate of exchange between the U.S. dollar and foreign currency, which could impact investment performance. The currency exposure related to investments in foreign currency assets is limited to our general partner interest, which is typically one percent of total capital commitments. We do not possess significant assets in foreign countries in which we operate or engage in material transactions in currencies other than the U.S. dollar. Therefore, changes in exchange rates are not expected to materially impact our financial statements.

Interest Rate Risk

As of March 31, 2019, we had \$71.3 million in borrowings outstanding under our Loan Agreements. The annual interest rate on the Term Loan Agreement, which is at the prime rate minus 1.25%, subject to a floor of 2.75%, was 4.25% as of March 31, 2019. The annual interest rate on the Revolving Loan Agreement, which is at the prime rate minus 1.50%, subject to a floor of 2.50%, was 4.0% as of March 31, 2019.

Based on the floating rate component of our Loan Agreements payable as of March 31, 2019, we estimate that a 100 basis point increase in interest rates would result in increased interest expense related to the loan of \$0.7 million over the next 12 months.

Credit Risk

We are party to agreements providing for various financial services and transactions that contain an element of risk in the event that the counterparties are unable to meet the terms of such agreements. In such agreements, we depend on the respective counterparty to make payment or otherwise perform. We generally endeavor to minimize our risk of exposure by limiting the counterparties with which we enter into financial transactions to reputable financial institutions. In other circumstances, availability of financing from financial institutions may be uncertain due to market events, and we may not be able to access these financing markets.

There have been no material changes in our market risk exposures since March 31, 2018.

Item 8. Financial Statements and Supplementary Data

Index	Page
Reports of Independent Registered Public Accounting Firm	93
Consolidated Balance Sheets	96
Consolidated Statements of Income	97
Consolidated Statements of Comprehensive Income	98
Consolidated Statements of Stockholder's Equity	99
Consolidated Statements of Cash Flows	101
Notes to Consolidated Financial Statements	102

Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors of Hamilton Lane Incorporated

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Hamilton Lane Incorporated (the Company) as of March 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at March 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated May 30, 2019 expressed an adverse opinion thereon.

Adoption of ASU No. 2014-09

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for revenue in the year ending March 31, 2019 due to the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), and the related amendments.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2008.
Philadelphia, Pennsylvania

May 30, 2019

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Hamilton Lane Incorporated

Opinion on Internal Control Over Financial Reporting

We have audited Hamilton Lane Incorporated's internal control over financial reporting as of March 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, because of the effect of the material weakness described below on the achievement of the objectives of the control criteria, Hamilton Lane Incorporated (the Company) has not maintained effective internal control over financial reporting as of March 31, 2019, based on the COSO criteria.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management has identified a material weakness related to information technology general controls that were determined to be ineffective for one information technology system that supports the Company's financial reporting process. The Company's compensating controls, some of which were review controls, that relied on electronic data generated from the system with ineffective information technology general controls were inappropriately designed and did not operate effectively.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of March 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2019, and the related notes. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the March 31, 2019 consolidated financial statements, and this report does not affect our report dated May 30, 2019, which expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
May 30, 2019

Hamilton Lane Incorporated
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	March 31,	
	2019	2018
Assets		
Cash and cash equivalents	\$ 49,357	\$ 47,596
Restricted cash	2,233	1,787
Fees receivable	20,320	14,924
Prepaid expenses	4,714	2,301
Due from related parties	2,628	3,236
Furniture, fixtures and equipment, net	8,108	4,782
Investments	154,491	137,253
Deferred income taxes	107,726	73,381
Other assets	11,014	8,535
Total assets	\$ 360,591	\$ 293,795
Liabilities and Equity		
Accounts payable	\$ 2,619	\$ 1,700
Accrued compensation and benefits	12,216	8,092
Deferred incentive fee revenue	3,704	6,245
Debt	70,954	84,162
Accrued members' distributions	17,081	11,837
Payable to related parties pursuant to tax receivable agreement	69,636	34,133
Accrued dividend	5,673	3,893
Other liabilities	8,986	7,659
Total liabilities	190,869	157,721
Commitments and Contingencies (Note 16)		
Class A common stock, \$0.001 par value, 300,000,000 authorized; 27,367,477 and 23,139,476 issued and outstanding as of March 31, 2019 and 2018, respectively	27	22
Class B common stock, \$0.001 par value, 50,000,000 authorized; 23,516,439 and 25,700,068 issued and outstanding as of March 31, 2019 and 2018, respectively	24	26
Additional paid-in-capital	92,482	73,829
Accumulated other comprehensive income	7	—
Retained earnings	17,686	4,549
Total Hamilton Lane Incorporated stockholders' equity	110,226	78,426
Non-controlling interests in general partnerships	5,716	7,266
Non-controlling interests in Hamilton Lane Advisors, L.L.C.	53,780	50,382
Total equity	169,722	136,074
Total liabilities and equity	\$ 360,591	\$ 293,795

See accompanying notes to the consolidated financial statements.

Hamilton Lane Incorporated
Consolidated Statements of Income
(In thousands, except per share amounts)

	Year Ended March 31,		
	2019	2018	2017
Revenues			
Management and advisory fees	\$ 217,773	\$ 195,030	\$ 172,674
Incentive fees	34,406	49,003	7,146
Total revenues	252,179	244,033	179,820
Expenses			
Compensation and benefits	97,719	82,868	72,116
General, administrative and other	50,236	38,212	31,589
Total expenses	147,955	121,080	103,705
Other income (expense)			
Equity in income of investees	7,202	17,102	12,801
Interest expense	(3,039)	(5,989)	(14,565)
Interest income	255	528	320
Non-operating income	20,915	5,036	83
Total other income (expense)	25,333	16,677	(1,361)
Income before income taxes	129,557	139,630	74,754
Income tax expense	30,560	33,333	316
Net income	98,997	106,297	74,438
Less: Income attributable to non-controlling interests in general partnerships	564	2,448	1,192
Less: Income attributable to non-controlling interests in Hamilton Lane Advisors, L.L.C.	64,860	86,508	72,634
Net income attributable to Hamilton Lane Incorporated	<u>\$ 33,573</u>	<u>\$ 17,341</u>	<u>\$ 612</u>
Basic earnings per share of Class A common stock			
Basic earnings per share of Class A common stock	\$ 1.41	\$ 0.94	\$ 0.03 ⁽¹⁾
Diluted earnings per share of Class A common stock			
Diluted earnings per share of Class A common stock	\$ 1.40	\$ 0.93	\$ 0.03 ⁽¹⁾
Dividends declared per share of Class A common stock			
Dividends declared per share of Class A common stock	\$ 0.85	\$ 0.70	\$ —

(1) Represents earnings per share of Class A common stock and weighted-average shares of Class A common stock outstanding for the period from March 6, 2017 through March 31, 2017, the period following the Reorganization and IPO, as defined in Note 1.

See accompanying notes to the consolidated financial statements.

Hamilton Lane Incorporated
Consolidated Statements of Comprehensive Income
(In Thousands)

	Year Ended March 31,		
	2019	2018	2017
Net income	\$ 98,997	\$ 106,297	\$ 74,438
Other comprehensive income (loss), net of tax:			
Unrealized loss on cash flow hedge	—	—	(142)
Foreign currency translation	15	—	—
Amounts reclassified to net income:			
Realized loss on cash flow hedge	—	922	44
Total other comprehensive income (loss), net of tax	15	922	(98)
Comprehensive income	\$ 99,012	\$ 107,219	\$ 74,340
Less:			
Comprehensive income attributable to non-controlling interests in general partnerships	564	2,448	1,192
Comprehensive income attributable to non-controlling interests in Hamilton Lane Advisors, L.L.C.	64,868	87,119	72,522
Total comprehensive income attributable to Hamilton Lane Incorporated	<u>\$ 33,580</u>	<u>\$ 17,652</u>	<u>\$ 626</u>

See accompanying notes to the consolidated financial statements.

Hamilton Lane Incorporated

Consolidated Statements of Stockholders' Equity

(In Thousands)

	Members' Equity (Deficit)	Class A Common Stock	Class B Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interests in general partnerships	Non-Controlling Interests in Hamilton Lane Advisors, L.L.C.	Total Equity (deficit)
Balance at March 31, 2016	\$ 70,658	—	—	—	—	—	—	\$ 11,368	—	\$ (111,938)
Net income prior to Reorganization and IPO	—	—	—	—	—	—	—	1,136	—	71,794
Other comprehensive loss prior to Reorganization and IPO	—	—	—	—	—	—	(140)	—	—	(140)
Equity-based compensation prior to Reorganization and IPO	4,363	—	—	—	—	—	4,363	—	—	4,363
Purchase of membership interests prior to Reorganization and IPO	(18,783)	—	—	—	—	—	—	—	—	(18,783)
Sale of membership interests prior to Reorganization and IPO	4,669	—	—	—	—	—	—	—	—	4,669
Proceeds received from option exercises prior to Reorganization and IPO	1,192	—	—	—	—	—	—	—	—	1,192
Member distributions prior to Reorganization and IPO	(71,083)	—	—	—	—	—	—	—	—	(71,083)
Capital contributions from (distributions to) non-controlling interests, net, prior to Reorganization and IPO	—	—	—	—	—	—	—	(2,659)	—	(2,659)
Issuance of Class A common stock sold in IPO, net of commissions	—	14	—	203,191	—	—	—	—	—	203,205
Issuance of Class B common stock to existing members	—	—	28	—	—	—	—	—	—	28
Effect of Reorganization transaction and purchase of HLA units	131,467	4	—	(187,681)	—	—	638	—	18,372	(37,200)
Deferred tax adjustments related to TRA and Unit exchanges	—	—	—	50,543	—	—	—	—	—	50,543
Deferred IPO costs	—	—	—	(5,844)	—	—	—	—	—	(5,844)
Issuance of restricted stock	—	1	—	(1)	—	—	—	—	—	—
Repurchase of Class A shares for employee tax withholding subsequent to Reorganization and IPO	—	—	—	1,415	—	(2,151)	—	—	(1,415)	(2,151)
Member distribution subsequent to Reorganization and IPO	—	—	—	—	—	—	—	—	(2,373)	(2,373)
Other comprehensive loss subsequent to Reorganization and IPO	—	—	—	—	—	—	14	—	28	42
Net income subsequent to Reorganization and IPO	—	—	—	—	612	—	—	56	1,976	2,644
Equity-based compensation subsequent to Reorganization and IPO	—	—	—	107	—	—	—	—	211	318
Equity reallocation between controlling and non-controlling interests	—	—	—	115	—	—	—	—	(115)	—
Balance at March 31, 2017	\$ 19	19	28	\$ 61,845	\$ 612	\$ (2,151)	\$ (311)	\$ 9,901	\$ 16,684	\$ 86,627
Net income	—	—	—	—	17,341	—	—	2,448	86,508	106,297
Other comprehensive income	—	—	—	—	—	—	311	—	611	922
Equity-based compensation	—	—	—	1,980	—	—	—	—	3,668	5,648
Retirement of treasury stock	—	—	—	(2,151)	—	2,151	—	—	—	—
Proceeds received from option exercises	—	—	—	108	—	—	—	—	205	313
Issuance of shares for acquisition	—	—	—	212	—	—	—	—	400	612
Repurchase of Class A shares for employee tax withholding	—	(1)	—	(2,672)	—	—	—	—	(3,800)	(6,473)
Deferred tax adjustment	—	—	—	7,012	—	—	—	—	7,012	7,012
Dividends declared	—	—	—	—	(13,404)	—	—	—	—	(13,404)
Capital contributions from (distributions to) non-controlling interests, net	—	—	—	—	—	—	—	(5,083)	—	(5,083)
Member distributions	—	—	—	—	—	—	—	—	(46,395)	(46,395)
Offering adjustments	—	4	(2)	7,681	—	—	—	—	(7,685)	(2)
Equity reallocation between controlling and non-controlling interests	—	—	—	(186)	—	—	—	—	186	—
Balance at March 31, 2018	\$ 22	22	26	\$ 73,829	\$ 4,549	\$ —	\$ —	\$ 7,266	\$ 50,382	\$ 136,074

Hamilton Lane Incorporated
Consolidated Statements of Stockholders' Equity
(In Thousands)

	Members' Equity (Deficit)	Class A Common Stock	Class B Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interests in general partnerships	Non-Controlling Interests in Hamilton Lane Advisors, L.L.C.	Total Equity (deficit)
Balance at March 31, 2018	\$ —	22 \$	26 \$	73,829 \$	4,549 \$	—	—	7,266 \$	50,382 \$	\$ 136,074
Net income	—	—	—	—	33,573	—	—	564	64,860	98,997
Cumulative-effect adjustment from adoption of accounting guidance	—	—	—	411	20	—	—	—	566	997
Other comprehensive loss	—	—	—	—	—	—	7	—	8	15
Equity-based compensation	—	—	—	2,912	—	—	—	—	3,544	6,456
Issuance of shares for contingent compensation payout	—	1	—	200	—	—	—	—	224	425
Purchase and retirement of Class A stock for tax withholding	—	—	—	(2,425)	—	—	—	—	(2,962)	(5,387)
Deferred tax adjustment	—	—	—	10,346	—	—	—	—	—	10,346
Dividends declared	—	—	—	—	(20,456)	—	—	—	—	(20,456)
Capital contributions from (distributions to) non-controlling interests, net	—	—	—	—	—	—	—	(2,114)	—	(2,114)
Member distributions	—	—	—	—	—	—	—	—	(55,893)	(55,893)
Offerings adjustment	—	4	(2)	9,589	—	—	—	—	(9,593)	(2)
Employee Share Purchase Plan share issuance	—	—	—	127	—	—	—	—	137	264
Vesting of restricted stock	—	—	—	324	—	—	—	—	(324)	—
Equity reallocation between controlling and non-controlling interests	—	—	—	(2,831)	—	—	—	—	2,831	—
Balance at March 31, 2019	\$ —	27 \$	24 \$	92,482 \$	17,686 \$	—	7	5,716 \$	53,780 \$	\$ 169,722

See accompanying notes to the consolidated financial statements.

Hamilton Lane Incorporated
Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended March 31,		
	2019	2018	2017
Operating activities:			
Net income	\$ 98,997	\$ 106,297	\$ 74,438
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,979	1,891	1,915
Change in deferred income taxes	21,665	22,983	26
Change in payable to related parties pursuant to tax receivable agreement	(9,778)	(5,076)	—
Write-off of deferred financing costs	—	1,657	3,359
Equity-based compensation	6,382	5,544	4,681
Gain on sale of investments valued at the measurement alternative	(11,133)	—	—
Equity in income of investees	(7,202)	(17,102)	(12,801)
Proceeds received from investments	14,077	14,391	10,843
Other	190	1,411	922
Changes in operating assets and liabilities:			
Fees receivable	(5,390)	(2,624)	(285)
Prepaid expenses	(2,414)	299	(1,038)
Due from related parties	608	77	(461)
Other assets	(1,614)	16	(610)
Accounts payable	919	334	725
Accrued compensation and benefits	4,549	4,675	(612)
Deferred incentive fee revenue	(2,541)	(38,921)	—
Other liabilities	1,328	840	577
Net cash provided by operating activities	\$ 111,622	\$ 96,692	\$ 81,679
Investing activities:			
Purchase of furniture, fixtures and equipment	\$ (5,366)	\$ (2,254)	\$ (1,275)
Proceeds from sales of investments valued at the measurement alternative	22,531	—	—
Cash paid for acquisition of business	—	(5,228)	—
Loan to investee	(944)	—	—
Distributions received from investments	10,614	16,055	8,782
Contributions to investments	(46,048)	(30,346)	(24,222)
Net cash used in provided by investing activities	\$ (19,213)	\$ (21,773)	\$ (16,715)
Financing activities:			
Proceeds from offerings	\$ 193,504	\$ 125,200	\$ —
Purchase of membership interests	(193,504)	(125,200)	(55,983)
Repayments of debt	(13,263)	(87,038)	(162,600)
Borrowings of debt, net of deferred financing costs	—	85,066	—
Contributions from non-controlling interest in Partnerships	81	276	532
Distributions to non-controlling interest in Partnerships	(2,195)	(5,359)	(3,191)
Proceeds from IPO, net of underwriting discount	—	—	203,205
Payment of deferred offering costs	—	—	(5,844)
Sale of membership interests	—	—	4,669
(Repurchase) issuance of Class B common stock	(2)	(2)	28
Purchase of restricted stock for tax withholdings	(5,387)	(6,473)	(2,151)
Proceeds received from issuance of shares under employee stock plans	264	313	1,192
Dividends paid	(18,676)	(9,511)	—
Members' distributions paid	(50,649)	(36,943)	(80,457)
Other	(383)	—	(611)
Net cash used in financing activities	\$ (90,210)	\$ (59,671)	\$ (101,211)
Effect of exchange rate changes on cash and cash equivalents	\$ 8	\$ —	\$ —
Increase (decrease) in cash, cash equivalents, and restricted cash	2,207	15,248	(36,247)
Cash, cash equivalents, and restricted cash at beginning of year	49,383	34,135	70,382
Cash, cash equivalents, and restricted cash at end of year	\$ 51,590	\$ 49,383	\$ 34,135

See accompanying notes to the consolidated financial statements.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

1. Organization

Hamilton Lane Incorporated (or “HLI”) was incorporated in the State of Delaware on December 31, 2007. The Company was formed for the purpose of completing an initial public offering (“IPO”) and related transactions (“Reorganization”) in order to carry on the business of Hamilton Lane Advisors, L.L.C. (“HLA”) as a publicly-traded entity. As of March 6, 2017, in connection with the Reorganization discussed below, HLI became the sole managing member of HLA. Unless otherwise specified, “the Company” refers to the consolidated entity of Hamilton Lane Incorporated and Hamilton Lane Advisors, L.L.C. and subsidiaries throughout the remainder of these notes.

HLA is a registered investment advisor with the United States Securities and Exchange Commission (“SEC”), providing asset management and advisory services, primarily to institutional investors, to design, build and manage private markets portfolios. HLA generates revenues primarily from management fees, by managing assets on behalf of customized separate accounts, specialized fund products and distribution management accounts, and advisory fees, by providing asset supervisory and reporting services. HLA sponsors the formation, and serves as the general partner or managing member, of various limited liability partnerships consisting of specialized funds and certain single client separate account entities (“Partnerships”) that acquire interests in third-party managed investment funds that make private equity and equity-related investments. The Partnerships may also make direct co-investments, including investments in debt, equity, and other equity-based instruments. The Company, which includes certain subsidiaries that serve as the general partner or managing member of the Partnerships, may invest its own capital in the Partnerships and generally makes all investment and operating decisions for the Partnerships. HLA operates several wholly owned entities through which it conducts its foreign operations.

Reorganization

In connection with the IPO, the Company completed a series of transactions in order to effect a corporate reorganization, including the following:

- the certificate of incorporation of HLI was amended and restated to, among other things, (i) provide for Class A common stock and Class B common stock, (ii) set forth the voting rights of the Class A common stock (one vote per share) and Class B common stock (ten votes per share) and (iii) establish a classified board of directors;
- the limited liability company agreement of HLA was amended and restated to, among other things, (i) appoint HLI as the sole managing member of HLA, (ii) reclassify all membership interests held by HLI as Class A units and (iii) classify the voting interests held by the continuing members of HLA as Class B units, and the non-voting interests held by the continuing members of HLA as Class C units;
- certain Class B Holders of HLA entered into a stockholders agreement pursuant to which they agreed to vote all their shares of voting stock in accordance with the instructions of HLA Investments, LLC (“HLAI”), HLI’s controlling stockholder; and
- HLI entered into an exchange agreement with the direct owners of HLA pursuant to which they will be entitled to exchange HLA units for shares of HLI’s Class A common stock on a one-for-one basis.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

Initial Public Offering

On March 6, 2017, HLI issued 13,656,250 shares of Class A common stock in the IPO at a price of \$16.00 per share. The net proceeds totaled \$203,205 after deducting underwriting commissions of \$15,295 and before offering costs of \$5,844 that were incurred by HLA. The net proceeds were used to purchase 11,156,250 newly issued Class A units in HLA for \$166,005, and 2,500,000 Class A units from existing HLA owners for \$37,200.

Subsequent to the IPO and Reorganization transactions, HLI is a holding company whose principal asset is a controlling equity interest in HLA. As the sole managing member of HLA, HLI operates and controls all of the business and affairs of HLA, and through HLA, conducts its business. As a result, HLI consolidates HLA's financial results and reports a non-controlling interest related to the portion of HLA units not owned by HLI. The assets and liabilities of HLA represent substantially all of HLI's consolidated assets and liabilities with the exception of certain deferred tax assets and liabilities, accrued dividends, and amounts payable to related parties pursuant to a tax receivable agreement.

The Reorganization is considered a transaction between entities under common control. As a result, the consolidated financial statements for periods prior to the IPO and the Reorganization are the consolidated financial statements of HLA as the predecessor to HLI for accounting and reporting purposes.

HLI held approximately 50.3% and 42.1% of the economic interest in HLA as of March 31, 2019 and 2018, respectively. As future exchanges of HLA units occur, the economic interest in HLA held by HLI will increase.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The accompanying financial statements include the accounts of the Company, and its consolidated subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Consolidation

The Company performs an analysis to determine whether it is required to consolidate entities, by determining if the Company has a variable interest in each entity and whether that entity is a variable interest entity ("VIE"). The Company performs the variable interest analysis for all entities in which it has a potential variable interest, which primarily consist of all Partnerships where the Company serves as the general partner or managing member, and general partner entities not wholly owned by the Company.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

If the Company has a variable interest in the entity and the entity is a VIE, it will also analyze whether the Company is the primary beneficiary of this entity and whether consolidation is required.

In evaluating whether it has a variable interest in the entity, the Company reviews the equity ownership and whether the Company absorbs risk created and distributed by the entity, as well as whether the fees charged to the entity are customary and commensurate with the level of effort required to provide services. Fees received by the Company are not variable interests if (i) the fees are compensation for services provided and are commensurate with the level of effort required to provide those services, (ii) the service arrangement includes only terms, conditions, or amounts that are customarily present in arrangements for similar services negotiated at arm's length and (iii) the Company's other economic interests in the VIE held directly and indirectly through its related parties, as well as economic interests held by related parties under common control, where applicable, would not absorb more than an insignificant amount of the entity's losses or receive more than an insignificant amount of the entity's benefits. Evaluation of these criteria requires judgment.

For entities determined to be VIEs, an evaluation is required to determine whether the Company is the primary beneficiary. The Company evaluates its economic interests in the entity specifically determining if the Company has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance ("the power") and the obligation to absorb losses or right to receive benefits that could potentially be significant to the VIE ("the benefits"). When making the determination on whether the benefits received from an entity are significant, the Company considers the total economics of the entity, and analyzes whether the Company's share of the economics is significant. The Company utilizes qualitative factors, and, where applicable, quantitative factors, while performing the analysis and the Company has determined that it is not the primary beneficiary of each of the Partnerships, therefore consolidation is not required for those entities.

For the general partner entities that are not wholly owned by the Company that are determined to be VIEs, the Company has determined it is the primary beneficiary since it has the power and the benefits; therefore consolidation of these entities is required. The portion of the consolidated subsidiaries owned by third parties and any related activity is eliminated through non-controlling interests in general partnerships in the Consolidated Balance Sheets and income (loss) attributable to non-controlling interests in general partnerships in the Consolidated Statements of Income.

For entities that are not determined to be VIEs, the Company analyzes whether it has a controlling financial interest to determine whether consolidation is required.

At each reporting date, the Company determines whether any reconsideration events have occurred that require it to revisit the primary beneficiary analysis and will consolidate or deconsolidate accordingly.

See Note 5 for additional disclosure on VIEs.

Accounting for Differing Fiscal Periods

The Partnerships primarily have a fiscal year end as of December 31, and the Company accounts for its investments in the Partnerships using a three-month lag due to the timing of financial information received from the investments held by the Partnerships. The Partnerships primarily invest in private equity funds, which generally require at least 90 days following the calendar year end to present audited financial statements. The Company records its share of capital contributions to and distributions from the Partnerships in investments in the Consolidated Balance Sheets during the three month lag period.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

The Company's revenue earned from Partnerships, including both management and advisory fee revenue and incentive fee revenue, is not accounted for on a lag.

To the extent that management is aware of material events that affect the Partnerships during the intervening period, the impact of the events would be disclosed in the Notes to Consolidated Financial Statements.

Foreign Currency

The Company and substantially all of its foreign subsidiaries utilize the U.S. dollar as its functional currency. The assets and liabilities of the Company's foreign subsidiaries with non-U.S. dollar functional currencies are translated at exchange rates prevailing at the end of each reporting period. The results of foreign operations are translated at the weighted average exchange rate for each reporting period. Translation adjustments are included in other comprehensive income (loss) within the consolidated financial statements until realized. Foreign currency transaction gains and losses are included in general, administrative and other expenses in the Consolidated Statements of Income and were \$368, \$(92), and \$175 for the years ended March 31, 2019, 2018 and 2017, respectively.

Cash, Cash Equivalents and Restricted Cash

Cash deposits in interest-bearing money market accounts and highly liquid investments, with an original maturity of three months or less, are classified as cash equivalents. Interest earned on cash and cash equivalents is recorded as interest income in the Consolidated Statements of Income.

Restricted cash at March 31, 2019 and 2018 was primarily cash held by the Company's foreign subsidiaries to meet applicable government regulatory capital requirements.

Fees Receivable

Fees receivable are equal to contractual amounts reduced for allowances, if applicable. The Company considers fees receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established as of March 31, 2019 or 2018. If accounts become uncollectible, they will be expensed when that determination is made.

Furniture, Fixtures and Equipment

Furniture, fixtures and equipment consist primarily of leasehold improvements, office equipment, furniture and fixtures, and computer hardware and software and are recorded at cost, less accumulated depreciation. Depreciation is recognized in accordance with the straight-line method over the estimated useful lives as follows:

Computer hardware and software	3-7 years
Furniture and fixtures	5 years
Office equipment	3 years

Leasehold improvements are capitalized and depreciated over the shorter of their useful life or the life of the lease. Expenditures for improvements that extend the useful life of an asset are capitalized. Expenditures for ordinary repairs and maintenance are expensed as incurred.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

Intangibles and Goodwill

The Company's intangible assets consist of customer relationship assets identified as part of previous acquisitions. Identifiable finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from 7 to 10 years, reflecting the contractual lives of such assets. The Company does not hold any indefinite-lived intangible assets. Intangible assets are reviewed for impairment quarterly, or when events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company has not recognized any impairment charges in any of the periods presented.

The carrying value of the intangible assets was \$2,562 and \$3,021, and is included in other assets in the Consolidated Balance Sheets as of March 31, 2019 and 2018, respectively. The accumulated amortization of intangibles was \$1,155 and \$696 as of March 31, 2019 and 2018, respectively. Amortization of intangible assets was \$459, \$326, and \$91 for each of the years in the three-year period ended March 31, 2019, respectively, and is included in general, administrative and other expenses in the Consolidated Statements of Income. The estimated amortization expense for each of the next five fiscal years is \$455, \$414, \$414, \$410, and \$369, respectively.

Goodwill of \$3,943 as March 31, 2019 and 2018 is included in other assets in the Consolidated Balance Sheets and was recorded in conjunction with previous acquisitions. Goodwill is reviewed for impairment at least annually utilizing a qualitative or quantitative approach, and more frequently if circumstances indicate impairment may have occurred. The impairment testing for goodwill under the qualitative approach is based first on a qualitative assessment to determine if it is more likely than not that the fair value of the Company's reporting unit is less than the respective carrying value. The reporting unit is the reporting level for testing the impairment of goodwill. If it is determined that it is more likely than not that a reporting unit's fair value is less than its carrying value or when the quantitative approach is used, a two-step quantitative assessment is performed to (a) calculate the fair value of the reporting unit and compare it to its carrying value, and (b) if the carrying value exceeds its fair value, to measure an impairment loss. The Company performed the annual impairment assessment as of December 31, 2018 noting that no goodwill impairment existed.

Equity Method Investments

Investments over which the Company is deemed to exert significant influence but not control are accounted for using the equity method of accounting. For investments accounted for under the equity method of accounting, the Company's share of income (losses) is included in equity in income of investees in the Consolidated Statements of Income. The Company's equity in income of investees is generally comprised of realized and unrealized gains from the underlying funds and portfolio companies held by the Partnerships. The carrying amounts of equity method investments are reflected in investments in the Consolidated Balance Sheets.

Fair Value of Financial Instruments

The Company utilizes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques (market approach, income approach, and cost approach). The levels of the hierarchy are described below:

- Level 1: Values are determined using quoted market prices for identical financial instruments in an active market.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

- Level 2: Values are determined using quoted prices for similar financial instruments and valuation models whose inputs are observable.
- Level 3: Values are determined using pricing models that use significant inputs that are primarily unobservable, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Company uses these levels of hierarchy to measure the fair value of certain financial instruments on a recurring basis, such as for investments; on a non-recurring basis, such as for acquisitions and impairment testing; for disclosure purposes, such as for long-term debt; and for other applications, as discussed in their respective notes.

The carrying amount of cash and cash equivalents, fees receivable, and accounts payable approximate fair value due to the immediate or short-term maturity of these financial instruments.

Revenue Recognition

On April 1, 2018, the Company adopted the new Accounting Standards Codification 606, “*Revenue from Contracts with Customers*,” using the modified retrospective method and applied the guidance only to contracts that were not completed as of that date. As a result, prior period amounts continue to be reported under legacy GAAP. The adoption did not change the historical pattern of recognizing revenue for management and advisory fees. Under the new standard, the Company recognizes incentive fee revenue when it concludes that it is probable that a significant reversal in the cumulative amount of incentive fee revenue will not occur. Additionally, certain reimbursable costs that were previously recorded on a net basis are recorded on a gross basis, which impacts the components of revenues and expenses.

The Company recorded a cumulative-effect adjustment that increased beginning additional paid-in-capital, retained earnings and non-controlling interest in Hamilton Lane Advisors, L.L.C. by \$411, \$20 and \$566, respectively. The adjustment was related to commission payments that are considered a cost of obtaining a contract under the new guidance and are capitalized and amortized over the expected life of the contractual relationship. These amounts were previously expensed when incurred.

Management and advisory fees

The Company earns management fees from services provided to its specialized funds, customized separate accounts, and distribution management clients, and advisory fees from services provided to advisory clients where the Company does not have discretion over investment decisions. Revenue is recognized when control of the promised services is transferred to customers in an amount that reflects the consideration the Company expects to receive in exchange for those services. Specialized funds are structured as partnerships having multiple investors with a subsidiary of the Company serving as general partner or managing member. Customized separate accounts are generally contractual arrangements involving an investment management agreement between the Company and a single client. In some cases, a customized separate account will be structured as a partnership with a subsidiary of the Company serving as general partner or managing member. The Company determined that the partnership is generally considered to be the customer with respect to specialized funds, while the individual investor or single limited partner is the customer with respect to customized separate accounts and advisory clients.

Management fees generally exclude the reimbursement of any partnership expenses paid by the Company on behalf of its customers pursuant to its contracts, including amounts related to professional fees and other fund administrative expenses. For the professional and administrative services performed

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

by third parties that the Company arranges for the partnerships, the Company concluded that the nature of its promise is to arrange for the services to be provided and it does not control the services provided by third parties before they are transferred to the customer. Therefore, the Company is acting as an agent. Accordingly, the reimbursement for these professional fees paid on behalf of the partnerships is generally presented on a net basis.

The Company also incurs certain costs, primarily employee travel, organization and syndication costs, for which it receives reimbursement from its customers in connection with satisfying these performance obligations. For reimbursable travel, organization and syndication costs, the Company concluded it controls the services provided by its employees and other parties and therefore is a principal. Accordingly, the Company records the reimbursement for these costs incurred on a gross basis as revenue in management and advisory fees and as expense in general, administrative and other expenses in the Consolidated Statements of Operations.

The Company considers its performance obligations in its customer contracts to be one of the following based upon the services promised: asset management services, arrangement of administrative services, distribution management services, or reporting services.

For asset management and arrangement of administrative services, the Company satisfies these performance obligations over time as the services are rendered and the customer simultaneously receives and consumes the benefits of the services as they are performed. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised services to the customer. Management fees from these performance obligations for contracts where the Company has discretion over investment decisions are generally calculated by applying a percentage to unaffiliated committed capital or net invested capital under management and are usually billed quarterly. For many partnerships, fees are based on committed capital during the investment period and then net invested capital through the remainder of the partnership term. The management fee base is subject to factors outside the Company's control and therefore estimates of future period management fees are not included in the transaction price, as those estimates would be considered constrained. Advisory fees from these performance obligations for contracts where the Company does not have discretion over investment decisions are generally based upon fixed amounts and are usually billed quarterly.

For distribution management services, the Company satisfies these performance obligations at a point in time when shares are sold/liquidated and the proceeds are delivered and the customer receives and consumes the benefits of the services. Distribution management fees are generally calculated by applying a percentage to the amounts sold/liquidated and are billed at the completion of each transaction.

For reporting services, the Company satisfies these performance obligations over time as the services are rendered and the customer simultaneously receives and consumes the benefits of the services as they are performed. Reporting fees are generally calculated by applying a fixed rate multiplied by the number of funds monitored and are billed quarterly.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

Incentive Fees

Contracts with certain customized separate accounts and specialized funds provide incentive fees, which generally range from 5% to 12.5% of profits, when investment returns exceed minimum return levels or other performance targets on either an annual or inception to date basis. Investment returns are highly susceptible to market factors and judgments and actions of third parties that are outside of the Company's control. Accordingly, incentive fees are considered variable consideration in asset management services and are therefore constrained and not recognized until it is probable that a significant reversal will not occur. Incentive fees from specialized funds and customized separate accounts are generally payable after all contributed capital and the preferred return on that capital has been distributed to investors. Incentive fees received before the revenue recognition criteria have been met are deferred and recorded within deferred incentive fee revenue in the Consolidated Balance Sheets.

Fund reimbursement revenue

The Company incurs certain costs related to the organization and syndication of new Partnerships. These costs generally include professional fees, legal fees, and other related items. The Company expenses these costs as they are incurred. Once the Partnership is successfully formed and has held its first closing, the Company recognizes those costs as revenue in the Consolidated Statements of Income as the Partnership is then able to reimburse the Company for these costs.

Compensation and Benefits

Compensation and Benefits consists of (a) base compensation comprising salary, bonuses, and benefits paid and payable to employees, (b) equity-based compensation associated with the grants of restricted stock awards to employees, and (c) incentive fee compensation, which consists of carried interest and performance fee allocations as detailed below.

Equity-based awards issued are measured at fair value at the date of grant. The fair value of the restricted stock grant is based on the closing stock price on the trading day before the date of grant less the present value of expected dividends. Expenses related to employee equity-based compensation are recorded evenly over the vesting period using the straight-line method. See Note 10 for more information regarding accounting for equity-based awards.

Incentive fee compensation expense includes compensation directly related to incentive fees. Certain employees of the Company are granted allocations or profit-sharing interests and are thereby, as a group, entitled to a 25% portion of the incentive fees earned by the Company from certain Partnerships and certain managed accounts subject to vesting. Amounts payable pursuant to these arrangements are recorded as compensation expense when they have become probable and reasonably estimable. The Company's determination of the point at which it becomes probable and reasonably estimable that incentive fee compensation expense should be recorded is based on its assessment of numerous factors, particularly those related to the profitability, realizations, distribution status, investment profile and commitments or contingencies of the individual funds that may give rise to incentive fees. Incentive fee compensation may be expensed before the related incentive fee revenue is recognized.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

Non-Operating Income

Non-operating income for the year ended March 31, 2018 consisted primarily of a non-cash adjustment to payable to related parties pursuant to the tax receivable agreement. Non-operating income for the year ended March 31, 2019 consisted primarily of gains on the sales of two technology investments during the period.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Deferred income taxes are recognized for the expected future tax consequences attributable to temporary differences between the carrying amount of the existing tax assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied in the years in which temporary differences are expected to be recovered or settled. The principal items giving rise to temporary differences are certain basis differences resulting from acquisitions and the recapitalization transactions. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

As a result of the Reorganization and IPO, HLI became the sole managing member of HLA, which is organized as a limited liability company and treated as a “flow-through” entity for income taxes purposes. As a “flow-through” entity, HLA is not subject to income taxes apart from foreign taxes attributable to its operations in foreign jurisdictions. Any taxable income or loss generated by HLA is passed through to and included in the taxable income or loss of its members, including HLI following the Reorganization and IPO, on a pro rata basis. As a result, the Company does not record income taxes on pre-tax income or loss attributable to the non-controlling interests in the general partnerships and HLA, except for foreign taxes discussed above. HLI is subject to U.S. federal and applicable state corporate income taxes with respect to its allocable share of any taxable income of HLA following the Reorganization and IPO.

The Company analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well for all open tax years in these jurisdictions. The Company evaluates tax positions taken or expected to be taken in the course of preparing an entity’s tax returns to determine whether it is “more-likely-than-not” that each tax position will be sustained by the applicable tax authority.

Tax Receivable Agreement

The Company’s purchase of HLA Class A units concurrent with the IPO, and periodic exchanges by holders of HLA units for shares of the Company’s Class A common stock pursuant to the Exchange Agreement, result in increases in its share of the tax basis of the tangible and intangible assets of HLA, which will increase the tax depreciation and amortization deductions that otherwise would not have been available to HLI. These increases in tax basis and tax depreciation and amortization deductions reduce the amount of cash taxes that HLI would otherwise be required to pay in the future. HLI has entered into a tax receivable agreement (“TRA”) with the other members of HLA (the “TRA Recipients”) that requires it to pay them 85% of the amount of cash savings, if any, in U.S. federal, state, and local income tax that HLI actually realizes (or, under certain circumstances, is deemed to realize) as a result of the increases in tax basis in connection with exchanges by the TRA Recipients described above and certain other tax benefits attributable to payments under the TRA.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

Segments

The Company operates its business in a single segment, which is how the chief operating decision maker (who is the chief executive officer) reviews financial performance and allocates resources. Accordingly, the Company considers itself to be in a single operating and reportable segment structure.

Concentrations of Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents, restricted cash and fees receivable. The majority of the Company’s cash, cash equivalents, and restricted cash are held with one major financial institution and expose the Company to a certain degree of credit risk. Substantially all cash amounts on deposit with major financial institutions exceed insured limits. The concentration of credit risk with respect to fees is generally limited due to the short payment terms extended to clients by the Company.

The Company derives revenues from clients located in the United States and other foreign countries.

The below table presents revenues by geographic location:

	Year Ended March 31,		
	2019	2018	2017
United States	\$ 132,326	\$ 130,737	\$ 99,098
Israel	21,013	24,387	16,675
Other foreign countries	98,840	88,909	64,047
Total revenues ⁽¹⁾	<u>\$ 252,179</u>	<u>\$ 244,033</u>	<u>\$ 179,820</u>

⁽¹⁾ Revenues are attributed to countries based on location of the client or investor.

The Company recognized approximately 17% of its total revenues for the year ended March 31, 2018 from previously deferred incentive fees from one of its co-investment funds.

Dividends and Distributions

Dividends and distributions are reflected in the consolidated financial statements when declared.

Recent Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, “*Recognition and Measurement of Financial Assets and Financial Liabilities*” (ASU 2016-01), which requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those years, and entities may early adopt. The Company adopted ASU 2016-01 on April 1, 2018 and the adoption did not have a material impact on its Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, “*Leases*” (ASU 2016-02). The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the consolidated balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated income statement. ASU 2016-02 is effective for annual periods beginning after

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

December 15, 2018, including interim periods within those annual periods, with early adoption permitted. The Company will adopt the guidance effective April 1, 2019 under the simplified transition method. The simplified transition method allows companies to forgo the comparative reporting requirements initially required under the modified retrospective transition approach and apply the new guidance prospectively. The Company does not expect that adoption will have a material impact on the Consolidated Statements of Income because all of the Company's leases are currently classified as operating leases, which under the guidance will continue to be recognized as expense on a straight-line basis. The adoption, however, will result in a gross-up in total assets and total liabilities on the consolidated statements of financial position. As of March 31, 2019, the gross-up impact on total assets and total liabilities is estimated to be approximately between \$11,000 and \$13,000. The amount of the liability represents the aggregate discounted amount of the Company's minimum lease obligations as of that date. The difference between the asset and liability amounts represents deferred rent liabilities and lease incentives as of March 31, 2019 that are netted against the right of use asset amount.

In August 2016, the FASB issued ASU No. 2016-15, "*Classification of Certain Cash Receipts and Payments*" (ASU 2016-15). ASU 2016-15 clarifies cash flow classification of several discrete cash flows issues including debt prepayment costs and distributions received from equity method investees. The amendments are effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted. The Company adopted ASU 2016-15 on April 1, 2018 and the adoption did not have a material impact on its Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*" (ASU 2018-13). ASU 2018-13 changes the fair value measurement disclosure requirements. The amendments remove or modify certain disclosures, while others were added. Early adoption of any removed or modified disclosure requirements is permitted upon issuance of ASU 2018-13 and adoption of the additional disclosure requirements may be delayed until the effective date. The Company elected to early adopt the removed or modified disclosure requirements of the standard on October 1, 2018 and expects to adopt the additional disclosure requirements on April 1, 2020. The adoption of the removed or modified disclosure requirements did not have a material impact on the Company's disclosures in its consolidated financial statements. Refer to Note 4 for disclosure related to investments carried at fair value.

Reclassifications

Certain prior period amounts have been reclassified to conform with current period presentation.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

3. Revenue

The following presents revenues disaggregated by product offering, which aligns with the identified performance obligations and the basis for calculating each amount:

Management and advisory fees	Year Ended March 31,		
	2019	2018	2017
Customized separate accounts	\$ 85,245	\$ 79,275	\$ 71,261
Specialized funds	93,056	83,151	74,675
Advisory	24,130	20,164	18,497
Reporting and other	8,805	8,064	5,301
Distribution management	4,525	4,376	2,940
Fund reimbursement revenue	2,012	—	—
Total management and advisory fees	\$ 217,773	\$ 195,030	\$ 172,674

Incentive fees	Year Ended March 31,		
	2019	2018	2017
Specialized funds	\$ 25,687	\$ 43,902	\$ 6,495
Customized separate accounts	8,719	5,101	651
Total incentive fees	\$ 34,406	\$ 49,003	\$ 7,146

The Company recognized incentive fee revenues of \$2,541 and \$38,921 during the years ended March 31, 2019 and 2018, respectively, that were previously received and deferred.

Cost to obtain contracts

The Company incurs incremental costs related to sales commissions paid to certain employees directly related to customized separate account contracts. These incremental costs are capitalized and amortized over the expected contract length proportionately to the management fee revenue expected to be recognized in each year as a percentage of the total expected revenue for the contract. The contract asset related to the cost to obtain contracts was \$968 as of March 31, 2019 and is included in other assets in the Consolidated Balance Sheets. Amortization expense related to this contract asset was \$480 for the year ended March 31, 2019 and is included in general, administrative and other in the Consolidated Statements of Income.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

4. Investments

Investments consist of the following:

	March 31,	
	2019	2018
Equity method investments in Partnerships	\$ 122,505	\$ 105,389
Equity method investments in Partnerships held by consolidated VIEs (See Note 5)	11,648	14,704
Other equity method investments	1,086	876
Other investments	12,488	—
Investments valued under the measurement alternative	6,764	16,284
Total Investments	\$ 154,491	\$ 137,253

Equity method investments

The Company's equity method investments in Partnerships represent its ownership in certain specialized funds and customized separate accounts. The strategies and geographic location of investments within the Partnerships vary by fund. The Company has a 1% interest in substantially all of the Partnerships. The Company's other equity method investments represent its ownership in a technology company that provides benchmarking and analytics of private equity data and its ownership in a joint venture that automates the collection of fund and underlying portfolio company data from general partners. The Company recognized equity method income related to its investments in Partnerships and other equity method investments of \$7,202, \$17,102, and \$12,801 for the years ended March 31, 2019, 2018, and 2017, respectively.

The Company's equity method investments in Partnerships consist of the following types:

	March 31,	
	2019	2018
Primary funds	\$ 22,791	\$ 20,708
Secondary funds	15,762	11,158
Direct/co-investment funds	35,902	29,469
Customized separate accounts	48,050	44,054
Total equity method investments in Partnerships	\$ 122,505	\$ 105,389

The Company's equity method investments in Partnerships held by consolidated VIEs consist of direct/co-investment funds.

The Company evaluates each of its equity method investments to determine if any were significant pursuant to the requirements of Regulation S-X. As of and for the years ended March 31, 2019 and 2018, no individual equity method investment held by the Company met the significance criteria, and as a result, the Company is not required to present separate financial statements for any of its equity method investments.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

The summarized financial information of the Company's equity method investments in Partnerships is as follows:

	March 31,	
	2019	2018
Assets		
Investments	\$ 13,473,255	\$ 12,002,005
Other assets	349,425	412,766
Total assets	<u>\$ 13,822,680</u>	<u>\$ 12,414,771</u>
Liabilities and Partners' Capital		
Debt	\$ 84,530	\$ 48,008
Other liabilities	57,772	56,972
Total liabilities	142,302	104,980
Partners' capital	13,680,378	12,309,791
Total liabilities and partners' capital	<u>\$ 13,822,680</u>	<u>\$ 12,414,771</u>

	Year Ended March 31,		
	2019	2018	2017
Investment income	\$ 211,797	\$ 233,255	\$ 93,470
Expenses	149,598	130,771	109,648
Net investment income (loss)	62,199	102,484	(16,178)
Net realized and unrealized gain	618,047	1,647,977	1,121,595
Net income	<u>\$ 680,246</u>	<u>\$ 1,750,461</u>	<u>\$ 1,105,417</u>

Other investments

The Company's other investments represent investments in a private equity fund and direct credit and equity co-investments purchased by a wholly owned subsidiary of the Company. The private equity fund invests in growth-stage technology companies and is recorded at estimated fair value based upon the net asset value of the Company's ownership interest of partners' capital in the underlying fund utilizing the practical expedient under ASC 820, "Fair Value Measurement." This investment can only be redeemed through distributions received from the liquidation of underlying investments of the fund, and the timing of distributions is currently undeterminable. The direct credit co-investments are debt securities classified as trading securities. The direct equity co-investments are measured at fair value with unrealized holding gains and losses included in earnings. The direct credit and equity co-investments are recorded at estimated fair value utilizing Level 3 inputs from recent precedent transactions. The change in fair value of the other investments was \$704 for the year ended March 31, 2019 and is recorded in non-operating income in the Consolidated Statements of Income.

Investments valued at the measurement alternative

The Company's investments valued at the measurement alternative include equity securities in other proprietary investments for which fair value is not readily determinable. ASU 2016-01 requires equity securities to be recorded at cost and adjusted to fair value at each reporting period. However, the guidance allows for a measurement alternative, which is to record the investments at cost, less impairment, if any, and subsequently adjust for observable price changes of identical or similar investments of the same issuer.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

During the year ended March 31, 2019, the Company performed a qualitative impairment assessment on its investments recorded at the measurement alternative. As of March 31, 2019, the Company determined that a quantitative assessment was required to be performed for one of its technology investments. The assessment indicated that the fair value was less than the carrying value at March 31, 2019. Prior to the impairment recorded, the carrying value of the investment was \$2,990. The impairment amount was \$701 and is included in non-operating income. The fair value was determined using both a discounted cash flow approach and a market approach based on guideline public companies, and is a Level III fair value measurement as financial projections were utilized.

On August 2, 2018, an acquisition of an entity in which the Company held an investment with a carrying amount of \$10,798 was completed. The Company received cash proceeds of \$17,724 and recorded a gain of \$6,926 in connection with the transaction, which was recorded in non-operating income for the year ended March 31, 2019.

On August 11, 2018, an acquisition of an entity in which the Company held an investment with a carrying amount of \$600 was completed. The Company received cash proceeds of \$4,807 and recorded a gain of \$4,207 in connection with the transaction, which was recorded in non-operating income for the year ended March 31, 2019.

5. Variable Interest Entities

The Company consolidates certain VIEs for which it is determined that the Company is the primary beneficiary. The consolidated VIEs are general partner entities of certain Partnerships, which are not wholly owned by the Company. The total assets of the consolidated VIEs are \$11,648 and \$14,704 as of March 31, 2019 and 2018, respectively, and are recorded in Investments in the Consolidated Balance Sheets. The consolidated VIEs had no liabilities other than deferred incentive fee revenue of \$3,704 and \$6,245 as of March 31, 2019 and 2018, respectively. The assets of the consolidated VIEs may only be used to settle obligations of the consolidated VIEs, if any. In addition, there is no recourse to the Company for the consolidated VIEs' liabilities, except for certain entities in which there could be a claw back of previously distributed carried interest.

The Company holds variable interests in certain Partnerships that are VIEs, which are not consolidated, as it is determined that the Company is not the primary beneficiary. Such Partnerships are considered VIEs because limited partners lack the ability to remove the general partner or dissolve the entity without cause, by simple majority vote (i.e. have substantive "kick out" or "liquidation" rights). The Company's involvement with such entities is in the form of direct equity interests in, and fee arrangements with, the Partnerships in which it also serves as the general partner or managing member. In the Company's role as general partner or managing member, it generally considers itself the sponsor of the applicable Partnership and makes all investment and operating decisions. As of March 31, 2019, the total commitments and remaining unfunded commitments from the limited partners and general partners to the unconsolidated VIEs are \$16,011,947 and \$5,502,015, respectively. These commitments are the primary source of financing for the unconsolidated VIEs.

The maximum exposure to loss represents the potential loss of assets recognized by the Company relating to these unconsolidated entities. The Company believes that its maximum exposure to loss is limited because it establishes separate limited liability or limited partnership entities to serve as the general partner or managing member of the Partnerships.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

The carrying amount of assets and liabilities recognized in the Consolidated Balance Sheets related to the Company's interests in these non-consolidated VIEs and the Company's maximum exposure to loss relating to non-consolidated VIEs were as follows:

	March 31,	
	2019	2018
Investments	\$ 87,001	\$ 77,016
Fees receivable	5,896	517
Due from related parties	1,332	1,837
Total VIE assets	94,229	79,370
Deferred incentive fee revenue	3,704	6,245
Non-controlling interests	(5,716)	(7,266)
Maximum exposure to loss	<u>\$ 92,217</u>	<u>\$ 78,349</u>

6. Furniture, Fixtures, and Equipment

Furniture, fixtures, and equipment consist of the following:

	March 31,	
	2019	2018
Computer hardware and software	\$ 6,100	\$ 4,056
Furniture and fixtures	3,739	4,183
Leasehold improvements	5,927	2,464
Office equipment	2,045	3,602
	<u>17,811</u>	<u>14,305</u>
Less: accumulated depreciation	9,703	9,523
Furniture, fixtures, and equipment, net	<u>\$ 8,108</u>	<u>\$ 4,782</u>

Depreciation expense was \$2,040, \$1,565 and \$1,824 for the years ended March 31, 2019, 2018 and 2017, respectively, and is included in general, administrative and other expenses in the Consolidated Statements of Income.

7. Acquisition

On August 11, 2017, HLA acquired substantially all the assets of Real Asset Portfolio Management LLC ("RAPM") for a total aggregate purchase price of approximately \$5,840, of which \$5,228 was paid in cash with the remainder settled in 27,240 shares of Class A common stock valued at approximately \$612. An additional amount of \$8,499 was payable to the principals of RAPM based upon an agreed-upon multiple of earnings. As the amount was contingent upon future employment, the amount has been recognized as compensation expense over the required performance period. The Company paid 50% of the amount due to the principals of RAPM during the quarter ended December 31, 2018, of which \$3,824 was paid in cash and \$425 was paid by issuing Class A common stock. The remaining 50% is required to be paid by August 2019. The Company recorded approximately \$2,948 of intangible assets related to the acquired investment management contracts, which assets will be amortized over 8 years, and \$2,874 of goodwill, which are both recorded in other assets in the Consolidated Balance Sheets. The remaining assets acquired and liabilities assumed were not material to the consolidated financial statements.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

8. Debt

On August 23, 2017, HLA entered into a Term Loan and Security Agreement (the “Term Loan Agreement”) and a Revolving Loan and Security Agreement (the “Revolving Loan Agreement” and, together with the Term Loan Agreement, the “Loan Agreements”) with First Republic Bank (“First Republic”) for \$75,000 and \$10,450, respectively. After expenses, the net amount of cash received was \$85,066 and was utilized to pay off the outstanding principal amount and accrued interest of the predecessor credit facility. The previous unamortized deferred financing costs of \$1,657 were written off and are included in interest expense in the Consolidated Statements of Income for the year ended March 31, 2018.

The Term Loan Agreement provides for a term loan facility in an aggregate principal amount of \$75,000 and also contains an accordion feature that allows HLA to increase the commitment under the facility by up to \$25,000 under certain conditions (the “Term Loan Facility”). Borrowings under the Term Loan Facility accrue interest at a floating per annum rate equal to the prime rate minus 1.25%, subject to a floor of 2.75%. The Term Loan Facility matures on November 1, 2024. The Company had an outstanding balance, net of unamortized debt discount and deferred financing costs of \$296 and \$351, on the Term Loan Facility of \$70,954 and \$73,712 as of March 31, 2019 and 2018, respectively.

The Revolving Loan Agreement provides for a revolving credit facility up to an aggregate principal amount of \$25,000 (the “Revolving Loan Facility”). Borrowings under the Revolving Loan Facility accrue interest at a floating per annum rate equal to the prime rate minus 1.50%, subject to a floor of 2.50%. The Revolving Loan Facility matures on August 21, 2020 and requires compliance with conditions precedent that must be satisfied prior to any borrowing. The Company had no outstanding balance and \$10,450 on the Revolving Loan Facility as of March 31, 2019 and 2018, respectively.

The Loan Agreements contain covenants that, among other things, limit HLA’s ability to incur indebtedness, transfer or dispose of assets, merge with other companies, create, incur or allow liens, make investments, pay dividends or make distributions, engage in transactions with affiliates and take certain actions with respect to management fees. The Loan Agreements also require HLA to maintain (i) a specified amount of management fees in each fiscal year during the term of each of the Loan Agreements, (ii) adjusted EBITDA, as defined in the Term Loan Agreement, less dividend distributions on a trailing six-month basis of \$12,500 or greater, tested semi-annually, and (iii) a specified tangible net worth during each fiscal year during the term of each of the Loan Agreements. The obligations under the Loan Agreements are secured by substantially all of the assets of HLA.

The aggregate minimum principal payments on the Term Loan are due as follows:

Fiscal year ending March 31,	
2019	\$ 5,625
2020	10,313
2021	13,125
2022	15,000
2023	17,812
Thereafter	9,375
	<u>\$ 71,250</u>

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

The fair value of the outstanding balance of the Company's debt instrument at March 31, 2019 and 2018 approximated par value based on current market rates for similar debt instruments and are classified as Level II within the fair value hierarchy.

9. Equity

Subsequent to the Reorganization and IPO as described in Note 1, the Company has two classes of common stock outstanding, Class A common stock and Class B common stock.

Class A common stock

Holders of Class A common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Additionally, holders of shares of Class A common stock are entitled to receive dividends when and if declared by the Board of Directors, subject to any statutory or contractual restrictions on the payment of dividends and to any restrictions on the payment of dividends imposed by the terms of any outstanding preferred stock.

Class B common stock

Holders of Class B common stock are entitled to ten votes for each share held of record on all matters submitted to a vote of stockholders, but have *de minimis* economic rights. Shares of Class B common stock were issued in the Reorganization to the holders of Class B units of HLA at a one-to-one ratio. Shares of Class B common stock (together with the corresponding Class B units) may be exchanged for shares of Class A common stock on a one-to-one basis, or, at the Company's election, for cash in an amount equal to the net proceeds from the sale of shares of Class A common stock equal to the number of shares of Class B common stock being exchanged, subject to certain restrictions.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

Shares of Common Stock Outstanding

The following table shows a rollforward of our common stock outstanding since our IPO:

	Class A Common Stock	Class B Common Stock
March 6, 2017	—	—
Issued to the public in the IPO	13,656,250	—
Issued to HLA Class B unitholders in the Reorganization	—	27,935,255
HLA units exchanged in the Reorganization	3,899,169	—
Restricted interests converted to restricted stock in connection with the Reorganization	1,080,063	—
Restricted stock granted at time of IPO	231,288	—
Restricted stock granted after IPO	284,263	—
Repurchase of restricted stock for tax withholding	(114,529)	—
March 31, 2017	<u>19,036,504</u>	<u>27,935,255</u>
Restricted stock granted	235,219	—
Shares issued due to option exercise	233,495	—
Shares issued in connection with RAPM acquisition	27,240	—
Shares issued (repurchased) in connection with offering	3,834,686	(2,235,187)
Shares repurchased for employee tax withholdings	(186,280)	—
Forfeitures	(41,388)	—
March 31, 2018	<u>23,139,476</u>	<u>25,700,068</u>
Shares issued (repurchased) in connection with offerings	4,141,921	(2,084,617)
Shares issued in connection with contingent compensation payment	11,380	—
Shares issued in connection with ESPP	7,137	—
Shares converted from units	41,435	—
Shares repurchased for employee tax withholdings	(123,928)	—
Forfeitures	(27,529)	(99,012)
Restricted stock granted	177,585	—
March 31, 2019	<u><u>27,367,477</u></u>	<u><u>23,516,439</u></u>

The reallocation adjustment between HLI stockholders' equity and non-controlling interests in Hamilton Lane Advisors, L.L.C. relates to the impact of changes in economic ownership percentages during the period and adjusting previously recorded equity transactions to the economic ownership percentage as of March 31, 2019.

HLA Operating Agreement

In accordance with the limited liability company agreement of HLA (the "HLA Operating Agreement"), profits and losses from HLA are allocated on a pro rata basis based upon each member's economic interests. The HLA Operating Agreement provides that distributions are made on a pro rata basis in an amount sufficient to pay income taxes owed by the members on their share of HLA's taxable income. In addition to these tax distributions, HLA made distributions in excess of required tax distributions to members in an aggregate amount of \$30,698, \$27,631, and \$45,000 for the years ended March 31, 2019, 2018, and 2017, respectively, and included an excess distribution to option holders of \$2,608 for the year ended March 31, 2017.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

March 2018 Offering

In March 2018, the Company and certain selling stockholders completed a registered offering of an aggregate of 4,531,001 shares of Class A common stock at a price of \$34.25 per share. The shares sold consisted of (i) 696,315 shares held by the selling stockholders and (ii) 3,834,686 shares newly issued by the Company. The Company received approximately \$125,200 in proceeds from the sale of its shares, net of underwriting discounts and commissions, and used all of the net proceeds to settle in cash exchanges by certain members of HLA of a total of 2,235,187 Class B units and 1,599,499 Class C units. In connection with the exchange of the Class B units, the Company also repurchased for par value and canceled a corresponding number of shares of Class B common stock. The Company did not receive any proceeds from the sale of shares by the selling stockholders.

September 2018 Offering

In September 2018, the Company and certain selling stockholders completed a registered offering of an aggregate of 2,880,979 shares of Class A common stock at a price of \$47.26 per share. The shares sold consisted of (i) 138,361 shares held by the selling stockholders and (ii) 2,742,618 shares newly issued by the Company. The Company received approximately \$129,626 in proceeds from the sale of its shares, net of underwriting discounts and commissions, and used all of the proceeds to settle in cash exchanges with certain members of HLA of a total of 1,372,674 Class B units and 1,369,944 Class C units. In connection with the exchange of the Class B units, the Company also repurchased for par value and canceled a corresponding number of shares of Class B common stock. The Company did not receive any proceeds from the sale of shares by the selling stockholders.

March 2019 Offering

In March 2019, the Company and a certain selling stockholder completed a registered offering of an aggregate of 1,449,303 shares of Class A common stock at a price of \$45.65 per share. The shares sold consisted of (i) 50,000 shares held by the selling stockholder and (ii) 1,399,303 shares newly issued by the Company. The Company received approximately \$63,878 in proceeds from the sale of its shares, net of underwriting discounts and commissions, and used all of the proceeds to settle in cash exchanges with certain members of HLA of a total of 711,943 Class B units and 687,360 Class C units. In connection with the exchange of the Class B units, the Company also repurchased for par value and canceled a corresponding number of shares of Class B common stock. The Company did not receive any proceeds from the sale of shares by the selling stockholder.

10. Equity-Based Compensation

2017 Equity Incentive Plan

The Company has adopted its 2017 Equity Incentive Plan, as amended (the “2017 Equity Plan”), which permits the issuance of up to 5,000,000 shares of Class A common stock, which may be granted as incentive stock options, nonqualified stock options, SARs, restricted stock, restricted stock units, or PSUs. Awards under the Plan generally vest over four years, with options expiring not more than ten years from the date of grant, three months after termination of employment or one year after the date of death or termination due to disability of the grantee. As of March 31, 2019, there were 3,251,741 shares of Class A common stock available to grant under the Plan. Pursuant to the terms of the Plan, awards may not be granted after February 28, 2027.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

Conversion of Restricted Interests

On March 6, 2017, in connection with the Reorganization described in Note 1, all outstanding options and unvested restricted interests of HLA were cancelled and replaced with stock options and restricted stock awards under the Plan. The replacement awards were issued with remaining vesting periods and other terms substantially identical to the awards they replaced. There was no difference in the fair value of the cancelled awards and replacement awards and no additional compensation expense was recorded.

Summary of Option Activity

A summary of option activity under the Plan for the three years ended March 31, 2019 is presented below:

	Year Ended March 31,					
	2019		2018		2017	
	Number of Options	Weighted- Average Exercise Price	Number of Options	Weighted- Average Exercise Price	Number of Options	Weighted- Average Exercise Price
Options outstanding at beginning of year	—	—	233,495	\$ 1.34	3,532,340	\$ 1.03
Options exercised	—	—	(233,495)	1.34	(3,298,845)	1.01
Options outstanding at end of year	—	—	—	—	233,495	1.34
Options exercisable at end of year	—	—	—	—	233,495	1.34

The intrinsic value of options exercised was \$4,350 and \$46,436 for the years ended March 31, 2018, and 2017, respectively.

Restricted Stock

The Company has granted restricted Class A common stock under the 2017 Equity Plan to certain employees as part of the annual bonus program and in connection with the Reorganization. Holders of restricted stock have all of the rights of a stockholder with respect to such shares, including the right to vote the shares but not the right to receive dividends or other distributions. Substantially all of the awards vest over four years in equal annual installments. On each vesting date, the related employee tax liabilities are either paid in cash by the employee or stock is sold back to the Company at the then-current fair value to offset the required minimum tax withholding obligations. Forfeitures are recognized as they occur. Compensation expense related to the awards is recognized ratably each month over the vesting period.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

The change in unvested restricted stock for the year ended March 31, 2019 is as follows:

	Total Unvested	Weighted- Average Grant-Date Fair Value of Award
March 31, 2018	893,557	\$ 19.32
Granted	177,585	40.77
Vested	(381,537)	17.03
Forfeited	(27,529)	14.73
March 31, 2019	<u>662,076</u>	<u>\$ 26.58</u>

The weighted-average fair value per share of restricted stock awarded during the years ended March 31, 2019, 2018 and 2017 was \$40.77, \$32.45, and \$17.49, respectively. The total fair value of restricted stock that vested during the years ended March 31, 2019, 2018 and 2017 was \$16,601, \$16,214, and \$8,589, respectively. As of March 31, 2019, total unrecognized compensation expense related to restricted stock was \$17,101 with a weighted-average amortization period of 2.97 years.

The total tax benefit recognized from share-based compensation for the years ended March 31, 2019, 2018 and 2017 was \$2,537, \$2,403 and \$656, respectively.

Employee Share Purchase Plan

On September 6, 2018, the Company's stockholders approved the Hamilton Lane Incorporated Employee Share Purchase Plan (the "ESPP"). The ESPP provides for a purchase price equal to 85% of the closing price of the Company's Class A common stock on the last trading day of each offering period, which begins the first day of each fiscal quarter and ends on the last day of that fiscal quarter. Our initial offering period started January 1, 2019. At inception, there were 1,000,000 shares available for purchase through the ESPP and 992,863 shares were available as of March 31, 2019. The benefit received by the employees, which is equal to a 15% discount on the shares of the Company's Class A common stock purchased, is recognized as equity-based compensation expense on the date of each purchase. During the year ended March 31, 2019, the Company recorded expense of \$47 related to the ESPP.

11. Compensation and Benefits

The Company has recorded the following amounts related to compensation and benefits:

	Year Ended March 31,		
	2019	2018	2017
Base compensation and benefits	\$ 78,452	\$ 72,151	\$ 65,968
Incentive fee compensation	7,785	1,774	1,467
Equity-based compensation	6,382	5,544	4,681
Contingent compensation related to acquisition (Note 7)	5,100	3,399	—
Total compensation and benefits	<u>\$ 97,719</u>	<u>\$ 82,868</u>	<u>\$ 72,116</u>

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

The Company provides defined contribution plans covering U.S., United Kingdom and Hong Kong employees subject to minimum age and service guidelines. Eligible employees may contribute a percentage of their annual compensation subject to statutory guidelines.

The Company makes discretionary and/or matching contributions to the plans, which amounted to \$1,507, \$1,303, and \$1,122 for the years ended March 31, 2019, 2018 and 2017, respectively, and is included in compensation and benefits expense in the Consolidated Statements of Income.

12. Income Taxes

The Company's income (loss) before income taxes consisted of the following:

	Year Ended March 31,		
	2019	2018	2017
Domestic income before income taxes	\$ 128,035	\$ 138,290	\$ 73,565
Foreign income before income taxes	1,522	1,340	1,189
Total income before income taxes	<u>\$ 129,557</u>	<u>\$ 139,630</u>	<u>\$ 74,754</u>

Components of income tax expense consist of the following:

	Year Ended March 31,		
	2019	2018	2017
Current:			
Federal	\$ 7,163	\$ 8,001	\$ —
State and local	1,269	1,769	—
Foreign	463	580	290
Total current income tax expense	<u>\$ 8,895</u>	<u>\$ 10,350</u>	<u>\$ 290</u>
Deferred:			
Federal	\$ 3,654	\$ 24,180	\$ 356
State and local	17,917	(496)	53
Foreign	94	(701)	(383)
Total deferred income tax (benefit) expense	<u>21,665</u>	<u>22,983</u>	<u>26</u>
Total income tax expense	<u>\$ 30,560</u>	<u>\$ 33,333</u>	<u>\$ 316</u>

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

A reconciliation of the U.S. statutory income tax rate to the Company's effective tax rate is as follows:

	Year Ended March 31,		
	2019	2018	2017
Federal tax at statutory rate	21.0 %	31.6 %	35.0 %
State income taxes, net of federal benefit	1.4 %	1.5 %	5.2 %
Non-controlling interest	(10.8)%	(19.8)%	(39.7)%
Foreign income taxes	0.0 %	(0.4)%	(0.3)%
Valuation allowance	1.9 %	(1.6)%	0.2 %
Tax reform impact	— %	13.7 %	— %
Deferred tax asset state apportionment changes	10.3 %	— %	— %
Other	(0.2)%	(1.1)%	— %
Effective tax rate	<u>23.6 %</u>	<u>23.9 %</u>	<u>0.4 %</u>

Federal Tax Reform

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Act") was enacted, resulting in significant changes to U.S. federal income tax laws which include, but are not limited to: (1) a reduction of the corporate income tax rate from a maximum graduated tax rate of 35% to a flat tax rate of 21% effective January 1, 2018, (2) a limitation of the tax deduction for interest expense, (3) expensing the cost of acquired qualified property, and (4) a one-time transition tax on accumulated, undistributed earnings of certain foreign subsidiaries.

The SEC Staff issued Staff Accounting Bulletin No. 118 in December 2017 which addresses situations where the information needed to account for the income tax effects of the Tax Act is either not available, not prepared, or incomplete for the reporting period in which the Tax Act was enacted. The Company has completed its analysis of the Tax Act at December 31, 2018 and did not record any significant adjustments to the provisional amounts originally recorded at March 31, 2018. The Company made an accounting policy election to treat the impacts of the global intangible low-taxed income ("GILTI") tax provisions as period costs in the period incurred. As such, there are no deferred tax assets or liabilities with respect to the GILTI provisions. On January 15, 2019, final regulations related to the transition tax were released. The Company is in the process of evaluating the impact of these regulations.

The significant components of deferred tax assets and liabilities are as follows:

	Year Ended March 31,	
	2019	2018
Deferred tax assets:		
Basis difference in HLA	\$ 126,219	\$ 94,608
Tax Receivable Agreement	16,652	9,195
Fixed assets	26	—
Net operating loss carryforwards	1,843	1,861
Valuation allowance	(37,164)	(32,545)
State taxes	150	262
Total deferred tax assets	<u>\$ 107,726</u>	<u>\$ 73,381</u>

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

As of March 31, 2019 and 2018, the Company had net operating loss carryforwards of \$7,999 and \$8,475 that were generated from certain foreign subsidiaries. These net operating losses can be carried forward indefinitely. As of March 31, 2019 and 2018, it is more likely than not that the tax benefits from certain of these net operating loss carryforwards will not be realized, therefore, a valuation allowance of \$947 and \$845 has been established, respectively.

In connection with the offerings, the Company recorded a deferred tax asset in the aggregate amount of \$63,867 including a valuation allowance of \$7,857 and a liability related to the TRA of \$45,956 as of March 31, 2019. These adjustments were recorded through additional paid in capital in the Consolidated Balance Sheets.

The Company believes it is more likely than not that the deferred tax assets (except those identified above) will be realized based on the Company's historic earnings, forecasted income, and the reversal of temporary differences. The net change in the valuation allowance was an increase of \$4,619.

U.S. federal and state income taxes have not been recognized on the basis difference of investments in foreign subsidiaries. Generally, the Company would be subject to U.S. income taxes upon repatriation of assets from the foreign subsidiaries or a sale or liquidation of the foreign subsidiaries. Determination of any unrecognized deferred income tax liability is not practical because of the complexities of the hypothetical calculation.

As of March 31, 2019, 2018, and 2017, the Company had no unrecognized tax positions. The Company does not expect any material increase or decrease in its gross unrecognized tax positions during the next twelve months. If and when the Company does record unrecognized tax positions in the future, any interest and penalties related to unrecognized tax positions will be recorded in the income tax expense line in the Consolidated Statements of Income.

The Company files income tax returns as required by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company may be subject to examination by federal and certain state and local tax authorities. As of March 31, 2019, the Company's income tax returns from 2015 remain open and are subject to examination. The Company's federal tax return for the period January 1, 2017 through March 31, 2017 is currently under audit by the Internal Revenue Service.

Tax Receivable Agreement

The Company has recorded a TRA liability of \$69,636 and \$34,133 as of March 31, 2019 and 2018. A payment of \$383 was made during the year ended March 31, 2019. In the event that the valuation allowance related to tax benefits associated with the tax receivable agreement is released in a future period, an additional estimated payable will be due to the TRA Recipients of \$6,490.

13. Earnings per Share

Basic earnings per share of Class A common stock is computed by dividing net income attributable to HLI by the weighted-average number of shares of Class A common stock outstanding. Diluted earnings per share of Class A common stock is computed by dividing net income attributable to HLI by the weighted-average number of shares of Class A common stock outstanding adjusted to give effect to potentially dilutive securities.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

Shares of the Company's Class B common stock do not share in the earnings or losses attributable to HLI and therefore are not participating securities. As a result, a separate presentation of basic and diluted earnings per share of Class B common stock under the two-class method has not been included. Shares of the Company's Class B common stock are, however, considered potentially dilutive to the Class A common stock because each share of Class B common stock, together with a corresponding Class B unit, is exchangeable for a share of Class A common stock on a one-for-one basis.

The following table sets forth reconciliations of the numerators and denominators used to compute basic and diluted earnings per share of Class A common stock:

	Year Ended March 31, 2019			Year Ended March 31, 2018		
	Net income attributable to HLI	Weighted-Average Shares	Per share amount	Net income attributable to HLI	Weighted-Average Shares	Per share amount
Basic EPS of Class A common stock	\$ 33,573	23,836,401	\$ 1.41	\$ 17,341	18,414,715	\$ 0.94
Adjustment to net income:						
Assumed exercise and vesting of employee awards	355			356		
Effect of dilutive securities:						
Assumed exercise and vesting of employee awards		462,394			575,654	
Diluted EPS of Class A common stock	<u>\$ 33,928</u>	<u>24,298,795</u>	\$ 1.40	<u>\$ 17,697</u>	<u>18,990,369</u>	\$ 0.93
				Year Ended March 31, 2017		
				Net income attributable to HLI	Weighted-Average Shares	Per share amount
Basic EPS of Class A common stock				612	17,788,363	\$ 0.03
Adjustment to net income:						
Assumed exercise and vesting of employee awards				9		
Effect of dilutive securities:						
Assumed exercise and vesting of employee awards					552,716	
Diluted EPS of Class A common stock				<u>\$ 621</u>	<u>18,341,079</u>	\$ 0.03

The calculations of diluted earnings per share exclude 26,420,627, 30,603,983, and 34,438,669 outstanding Class B and C units of HLA for the years ended March 31, 2019, 2018 and 2017, respectively, which are exchangeable into Class A common stock under the "if-converted" method, because the inclusion of such shares would be antidilutive.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

14. Related-Party Transactions

The Company considers its employees, directors, and equity method investments to be related parties.

The Company has investment management agreements with various specialized funds and customized separate accounts that it manages. The Company earned management and advisory fees from Partnerships of \$134,343, \$113,507, and \$105,087 for the years ended March 31, 2019, 2018 and 2017, respectively. The Company earned incentive fees from Partnerships of \$31,876, \$43,522, and \$6,495 for the years ended March 31, 2019, 2018 and 2017, respectively.

The Company entered into a service agreement on June 1, 2017 with a joint venture pursuant to which it incurred expenses of \$5,058 and \$3,638 for the years ended March 31, 2019 and 2018, respectively, which amounts are included in general, administrative and other expenses in the Consolidated Statements of Income. The Company also has a payable to the joint venture of \$450 and \$393 as of March 31, 2019 and 2018, respectively, which is included in other liabilities in the Consolidated Balance Sheets.

The Company entered into a convertible promissory note (the "Note") with one of the Company's technology investments for \$944 on October 23, 2018 that bears 8% annual interest and matures on December 31, 2019. The Note contains an option for the outstanding principal and any accrued interest to be converted to shares of the investee under certain conditions. In connection with the impairment recorded on the investment as discussed in Note 4, the Note was written down to fair value and a loss of \$300 was recorded in non-operating income. The carrying amount of the Note including accrued interest was \$678 as of March 31, 2019 and is recorded in other assets in the Consolidated Balance Sheets.

Due from related parties in the Consolidated Balance Sheets consist primarily of advances made on behalf of the Partnerships for the payment of certain operating costs and expenses for which the Company is subsequently reimbursed and refundable tax distributions made to members of HLA.

Fees receivable from the Partnerships were \$8,927 and \$1,929 as of March 31, 2019 and 2018, respectively, and are included in fees receivable in the Consolidated Balance Sheets.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

15. Supplemental Cash Flow Information

	Year Ended March 31,		
	2019	2018	2017
Cash paid during the year for interest	\$ 2,966	\$ 3,075	\$ 10,234
Cash paid during the year for income taxes	\$ 10,176	\$ 8,790	\$ 280
Cumulative-effect adjustment from adoption of accounting guidance	\$ 997	\$ —	\$ —
Shares issued for contingent compensation payment	\$ 425	\$ —	\$ —
Non-cash investing activities:			
Shares issued for acquisition of business	\$ —	\$ 612	\$ —
Non-cash financing activities:			
Exchange of HLA Class A units to HLI Class A common stock	\$ —	\$ —	\$ 4
Establishment of net deferred tax assets related to tax receivable agreement	\$ 56,010	\$ 34,492	\$ 61,278
Dividends declared but not paid	\$ 5,673	\$ 3,893	\$ —
Members' distributions declared but not paid	\$ 17,081	\$ 11,837	\$ 2,385

16. Commitments and Contingencies

Litigation

In the ordinary course of business, the Company may be subject to various legal, regulatory, and/or administrative proceedings from time to time. Although there can be no assurance of the outcome of such proceedings, in the opinion of management, the Company does not believe it is probable that any pending or, to its knowledge, threatened legal proceeding or claim would individually or in the aggregate materially affect its consolidated financial statements.

Incentive Fees

The Partnerships have allocated Carried Interest, which has not yet been received or recognized, in the amounts of \$326,466 and \$303,766 at March 31, 2019 and 2018, respectively, of which \$3,704 and \$6,245 at March 31, 2019 and 2018, respectively, has been received and deferred by the Company.

If the Company ultimately receives the unrecognized Carried Interest, a total of \$81,616 and \$75,306 as of March 31, 2019 and 2018, respectively, would be potentially payable to certain employees and third parties pursuant to compensation arrangements related to the carried interest profit-sharing plans. Such amounts have not been recorded in the Consolidated Balance Sheets or Consolidated Statements of Income as this liability is not yet probable.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

Leases

The Company has entered into operating lease agreements for office equipment, office space, and related information services. The Company leases office space in various countries around the world and maintains its headquarters in Bala Cynwyd, Pennsylvania, where it leases primary office space under a non-cancellable lease agreement expiring December 2021 with two options to extend the term for five years each. Total lease expense was \$5,851, \$5,286, and \$4,801 for the years ended March 31, 2019, 2018 and 2017, respectively, and is recorded on the straight-line basis and included in general, administrative and other expenses in the Consolidated Statements of Income.

Future minimum lease payments under noncancelable operating leases consist of the following:

Fiscal year ending March 31:

2020	\$	5,472
2021		4,670
2022		2,939
2023		811
2024		382
Thereafter		244

Commitments

The Company serves as the investment manager of the Partnerships. The general partner or managing member of each Partnership is generally a separate subsidiary of the Company and has agreed to invest funds on the same basis as the limited partners in most instances. The aggregate unfunded commitment of the general partners to the Partnerships was \$123,637 and \$101,054 as of March 31, 2019 and 2018, respectively.

Hamilton Lane Incorporated
Notes to Consolidated Financial Statements
(In thousands, except share and per share amounts)

17. Quarterly Financial Information (Unaudited)

	For the quarter ended			
	June 30, 2018	September 30, 2018	December 31, 2018	March 31, 2019
Total revenues	\$ 63,362	\$ 55,833	\$ 65,996	\$ 66,988
Total expenses	37,670	34,466	37,759	38,060
Net income	23,103	32,572	22,915	20,407
Net income attributable to Hamilton Lane Incorporated	8,845	11,222	5,458	8,048
Earnings per share of Class A common stock:				
Class A - Basic	\$.40	\$.49	\$.22	\$.32
Class A - Diluted	\$.39	\$.49	\$.22	\$.31

	For the quarter ended			
	June 30, 2017	September 30, 2017	December 31, 2017	March 31, 2018
Total revenues	\$ 52,701	\$ 48,709	\$ 65,014	\$ 77,609
Total expenses	28,420	28,703	30,710	33,247
Net income	25,612	18,234	17,833	44,618
Net income (loss) attributable to Hamilton Lane Incorporated	5,464	4,688	(6,309)	13,498
Earnings (loss) per share of Class A common stock:				
Class A - Basic	\$.30	\$.26	\$ (.35)	\$.69
Class A - Diluted	\$.30	\$.26	\$ (.35)	\$.68

18. Subsequent Events

On May 29, 2019, the Company transferred its interests in all of its other investments (See Note 4) to a newly created Partnership. The Company expects to consolidate the Partnership in its consolidated financial statements as the Partnership will be a VIE and the Company will be the primary beneficiary.

On May 29, 2019, one of the Company's technology investments announced that it was being acquired. Based upon the current terms of the acquisition agreement, the Company estimates it will record a gain of approximately \$4,900 in connection with the transaction.

On May 29, 2019, the Company declared a quarterly dividend of \$0.275 per share of Class A common stock to record holders at the close of business on June 14, 2019. The payment date will be July 5, 2019.

Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

Our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are intended to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

The Chief Executive Officer and the Chief Financial Officer, with assistance from other members of management, have evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2019 and, based on their evaluation, have concluded that the disclosure controls and procedures were not effective as of such date due to a material weakness in internal control over financial reporting, as described in Management's Report on Internal Control over Financial Reporting below.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with U.S. GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of March 31, 2019, based on the criteria described in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of its evaluation, management concluded that our internal control over financial reporting was not effective as of March 31, 2019 due to the presence of the material weakness described related to insufficient information technology general controls.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Specifically, information technology general controls were determined to be ineffective for one information technology system that supports the Company's financial reporting process. The Company's compensating controls, some of which were review controls, that relied on electronic data generated from the

system with ineffective information technology general controls were inappropriately designed and did not operate effectively.

Notwithstanding the identified material weakness as of March 31, 2019, management, including the Chief Executive Officer and Chief Financial Officer, believes that the audited consolidated financial statements contained in this Form 10-K filing fairly present, in all material respects, our financial condition, results of operations and cash flows for the fiscal years presented in conformity with GAAP. Additionally, this material weakness did not result in any identified misstatements to the audited consolidated financial statements or disclosures in this Form 10-K, or any restatements of our audited and unaudited consolidated financial statements or disclosures for any previously reported periods.

Ernst & Young LLP, an independent registered public accounting firm, has issued an adverse audit report on the effectiveness of the Company's internal control over financial reporting as of March 31, 2019, which appears in Item 8 of this Annual Report.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting that occurred during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Subsequent to March 31, 2019 and in connection with the identification of the material weakness discussed above, we plan to take the following steps to improve our internal control over financial reporting:

- We plan to implement procedures intended to ensure that data entry is performed correctly and a compensating control of independent reconciliations and verifications is in place to verify the system's output.
- We plan to establish additional monitoring and oversight controls to ensure the accuracy and completeness of our consolidated financial statements and related disclosures.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which will be filed within 120 days after March 31, 2019. Accordingly, we have omitted the information from this Item pursuant to General Instruction G(3) of Form 10-K.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which will be filed within 120 days after March 31, 2019. Accordingly, we have omitted the information from this Item pursuant to General Instruction G(3) of Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which will be filed within 120 days after March 31, 2019. Accordingly, we have omitted the information from this Item pursuant to General Instruction G(3) of Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which will be filed within 120 days after March 31, 2019. Accordingly, we have omitted the information from this Item pursuant to General Instruction G(3) of Form 10-K.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated by reference to, and will be contained in, our definitive proxy statement, which will be filed within 120 days after March 31, 2019. Accordingly, we have omitted the information from this Item pursuant to General Instruction G(3) of Form 10-K.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this Form 10-K:

1. All financial statements. See Index to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.
2. Financial Statement Schedules. Financial statement schedules are omitted as they are either not required or the information is otherwise included in the consolidated financial statements.
3. Exhibits. See Exhibit Index.

Item 16. Form 10-K Summary

Omitted at the Company's option.

Exhibit Index

Exhibit No.	Description of Exhibit	Incorporated By Reference				Filed Herewith
		Form	Exhibit	Filing Date	File No.	
3.1	Amended and Restated Certificate of Incorporation of Hamilton Lane Incorporated	8-K	3.1	3/10/17	001-38021	
3.2	Amended and Restated Bylaws of Hamilton Lane Incorporated	10-K	3.2	6/27/17	001-38021	
4.1	Description of Common Stock of Hamilton Lane Incorporated					X
10.1	Fourth Amended and Restated Limited Liability Company Agreement of Hamilton Lane Advisors, L.L.C., dated as of March 6, 2017, by and among Hamilton Lane Advisors, L.L.C. and its members	8-K	10.1	3/10/17	001-38021	
10.2	Amendment No. 1 to the Fourth Amended and Restated Limited Liability Company Agreement of Hamilton Lane Advisors, L.L.C., dated as of February 26, 2018, by and among Hamilton Lane Advisors, L.L.C. and its members	S-1	10.2	2/26/18	333-223235	
10.3	Amendment No. 2 to the Fourth Amended and Restated Limited Liability Company Agreement of Hamilton Lane Advisors, L.L.C., dated as of June 13, 2018, by and among Hamilton Lane Advisors, L.L.C. and its members	10-K	10.3	6/14/18	001-38021	
10.4	Tax Receivable Agreement, dated as of March 6, 2017, by and among Hamilton Lane Incorporated, Hamilton Lane Advisors, L.L.C., and each of the other persons and entities party thereto	8-K	10.2	3/10/17	001-38021	
10.5	Exchange Agreement, dated as of March 6, 2017, by and among Hamilton Lane Incorporated, Hamilton Lane Advisors, L.L.C., and each of the other persons and entities party thereto	8-K	10.3	3/10/17	001-38021	
10.6	Amendment No. 1 to the Exchange Agreement, dated as of February 6, 2018, by and among Hamilton Lane Incorporated, Hamilton Lane Advisors, L.L.C., and each of the other persons and entities party thereto	10-Q	10.3	2/9/18	001-38021	
10.7	Registration Rights Agreement, dated as of March 6, 2017, by and among Hamilton Lane Incorporated and the other persons party thereto	8-K	10.4	3/10/17	001-38021	
10.8	Stockholders Agreement, dated as of March 6, 2017, by and among Hamilton Lane Incorporated, Hamilton Lane Advisors, L.L.C. and the other persons and entities party thereto	8-K	10.5	3/10/17	001-38021	
10.9†	Hamilton Lane Incorporated 2017 Equity Incentive Plan	S-1/A	10.6	2/16/17	333-215846	

Exhibit No.	Description of Exhibit	Incorporated By Reference				Filed Herewith
		Form	Exhibit	Filing Date	File No.	
10.10†	Amendment No. 1 to the Hamilton Lane Incorporated 2017 Equity Incentive Plan	10-Q	10.2	2/9/18	001-38021	
10.11†	Form of Restricted Stock Award Agreement under the 2017 Equity Incentive Plan	S-1/A	10.7	2/16/17	333-215846	
10.12†	Form of Director Restricted Stock Award Agreement under the 2017 Equity Incentive Plan	10-Q	10.1	2/9/18	001-38021	
10.13†	Form of Non-Qualified Stock Option Agreement under the 2017 Equity Incentive Plan	S-1/A	10.8	2/16/17	333-215846	
10.14†	Hamilton Lane Advisors, L.L.C. 2016 Carried Interest Plan (amended and restated, effective as of January 1, 2018)	10-Q	10.2	8/9/18	001-38021	
10.15†	Hamilton Lane Incorporated Employee Share Purchase Plan	DEF14A	Appendix A	7/27/18	001-38021	
10.16†	Form of Indemnification Agreement between Hamilton Lane Incorporated and certain of its directors and officers	S-1/A	10.9	2/16/17	333-215846	
10.17○	Term Loan and Security Agreement, dated August 23, 2017, by and between First Republic Bank and Hamilton Lane Advisors, L.L.C.	8-K	10.1	8/25/17	001-38021	
10.18○	Revolving Loan and Security Agreement, dated August 23, 2017, by and between First Republic Bank and Hamilton Lane Advisors, L.L.C.	8-K	10.2	8/25/17	001-38021	
10.19†	Employment Agreement, effective as of May 23, 2016, by and between Hamilton Lane (Hong Kong) Limited and Juan Delgado-Moreira	10-K	10.12	6/27/17	001-38021	
21.1	List of Subsidiaries					X
23.1	Consent of Independent Registered Public Accounting Firm					X
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1‡	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					
100.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase					X

Exhibit No.	Description of Exhibit	Incorporated By Reference				Filed Herewith
		Form	Exhibit	Filing Date	File No.	
101.LAB	XBRL Taxonomy Extension Label Linkbase					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase					X

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- † Indicates a management contract or compensatory plan or arrangement.
 - Confidential treatment has been granted for portions of this exhibit.
 - ‡ Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 30th day of May, 2019.

HAMILTON LANE INCORPORATED

By: /s/ Mario L. Giannini

Name: Mario L. Giannini

Title: Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on this 30th day of May, 2019.

<u>Signature</u>	<u>Title</u>
<u>/s/ Hartley R. Rogers</u> Hartley R. Rogers	Chairman of the Board of Directors
<u>/s/ Mario L. Giannini</u> Mario L. Giannini	Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ Randy M. Stilman</u> Randy M. Stilman	Chief Financial Officer and Treasurer (Principal Financial Officer)
<u>/s/ Michael T. Donohue</u> Michael T. Donohue	Controller (Principal Accounting Officer)
<u>/s/ Erik R. Hirsch</u> Erik R. Hirsch	Vice Chairman and Director
<u>/s/ David J. Berkman</u> David J. Berkman	Director
<u>/s/ O. Griffith Sexton</u> O. Griffith Sexton	Director
<u>/s/ Leslie F. Varon</u> Leslie F. Varon	Director

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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

DIRECTORS

Hartley R. Rogers
Chairman
HAMILTON LANE INCORPORATED

Erik R. Hirsch
Vice Chairman
HAMILTON LANE INCORPORATED

O. Griffith Sexton*
Corporate Director

Mario L. Giannini
Chief Executive Officer
HAMILTON LANE INCORPORATED

David J. Berkman*
Managing Partner
ASSOCIATED PARTNERS, LP

Leslie F. Varon*
Corporate Director

** Independent director of Hamilton Lane Incorporated*

CORPORATE HEADQUARTERS

One Presidential Boulevard, 4th Floor
Bala Cynwyd, Pennsylvania 19004
(610) 934-2222

TRANSFER AGENT & REGISTRAR

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, New York 11219

QUARTERLY BUSINESS RESULTS/ HAMILTON LANE NEWS

Current investor information is available on
our website at www.hamiltonlane.com

INVESTOR RELATIONS

John Oh
(610) 617-6026
ir@hamiltonlane.com

INDEPENDENT AUDITORS

Ernst & Young LLP
Philadelphia, Pennsylvania

STOCK EXCHANGE LISTING

Nasdaq: HLNE

