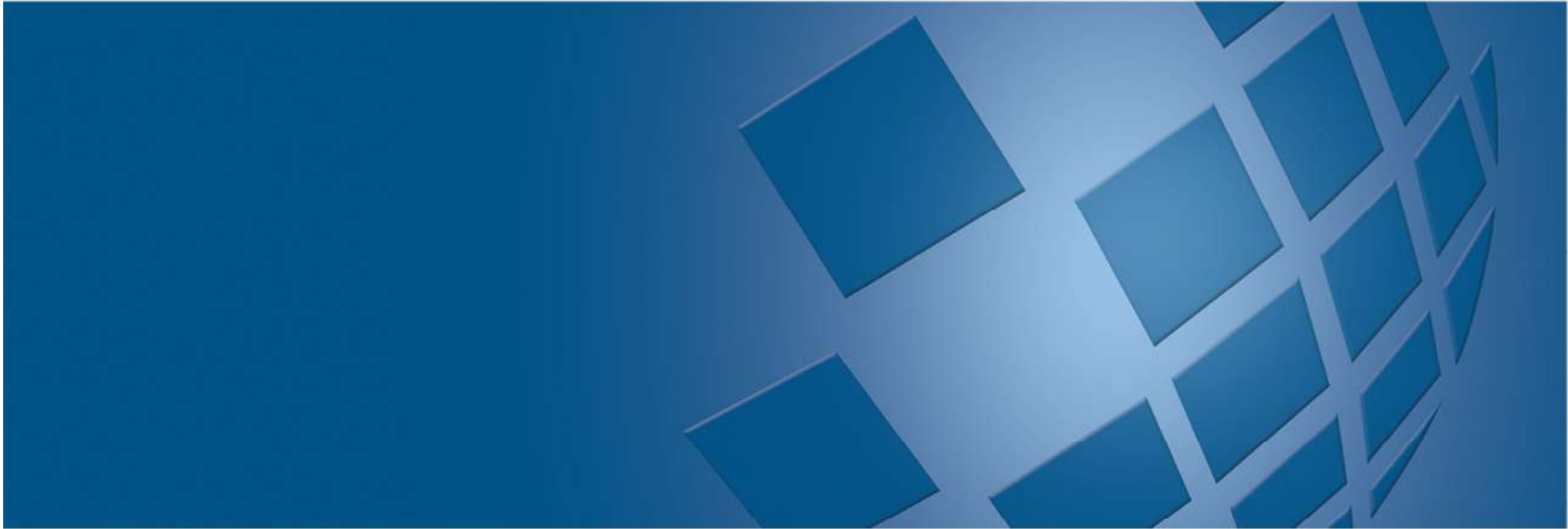




Hamilton Lane®



# Santa Barbara County Employees' Retirement System

First Quarter 2018 Private Real Return (PRR) Performance Update

## Agenda

- Q1 Private Real Return Performance ..... 1
- Deal Review ..... 11
- Appendix ..... 16



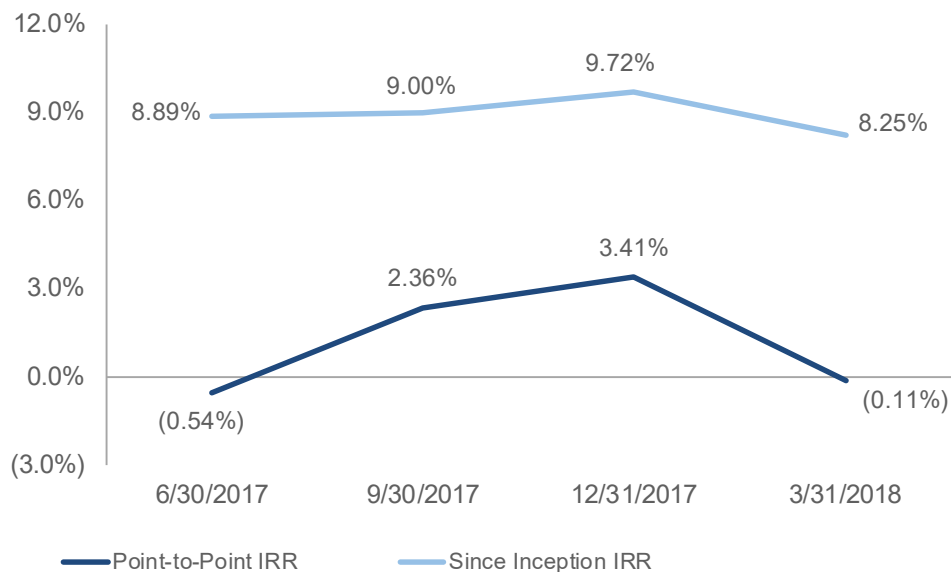
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# Q1 Private Real Return Performance

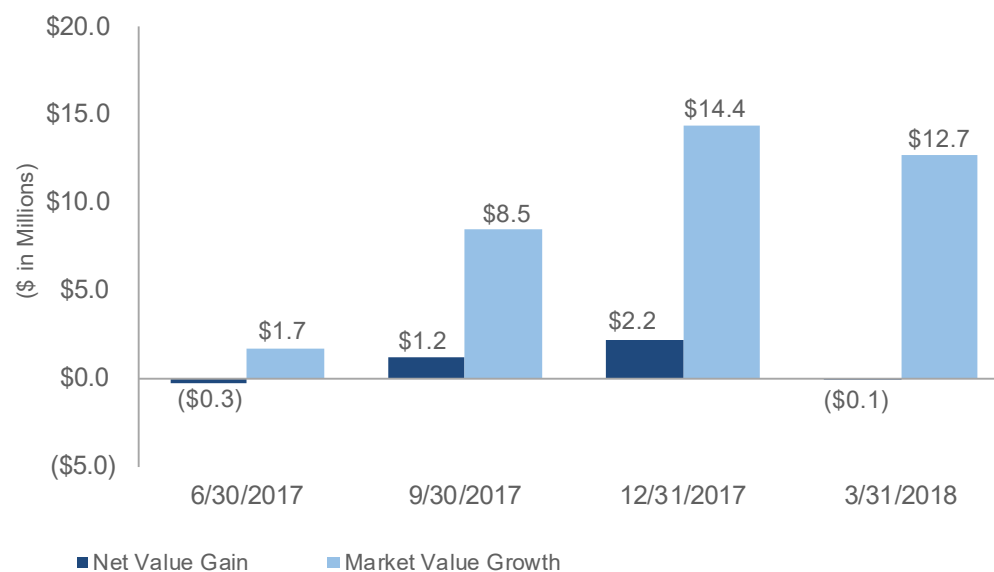
## Performance and Value Creation

- Portfolio outperforms the Consumer Price Index – All Urban Consumers (designated public benchmark) across 3-year and since inception time periods
  - 282 bps since inception
- 5.13% point-to-point IRR for the one-year period; \$3.1M in net value gains

**PRR Portfolio Returns**



**PRR Portfolio Value Created**



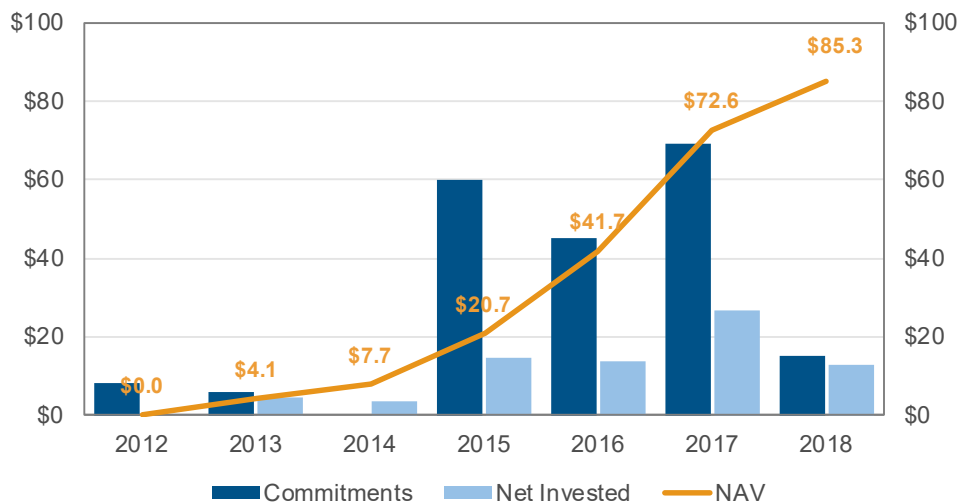
Portfolio Snapshot			
\$ millions	12/31/2017	3/31/2018	Change
Active Partnerships	15	17	2
Active GP Relationships	12	13	1
Capital Committed <sup>1</sup>	\$173.6	\$203.8	\$30.2
Unfunded Commitment	\$108.5	\$125.5	\$17.0
Capital Contributed	\$69.2	\$83.1	\$13.9
Capital Distributed	\$6.5	\$7.6	\$1.1
Market Value	\$72.6	\$85.3	\$12.7
Total Value Multiple	1.14x	1.12x	(0.02x)
Since Inception IRR	9.72%	8.25%	(147 bps)
Avg Age of Commitments	1.7 years	1.7 years	-

<sup>1</sup>The "change" in the capital committed from 12/31/2017 to 3/31/2018 is due to currency fluctuations from existing foreign partnerships, as well as two new commitments

- Two investments added to the Portfolio in the first quarter; one new manager (Hancock)
- Portfolio continues to develop; 62% unfunded at 3/31/18
  - Average age remains at 1.7 years as newer commitments begin investing

## Annual NAV Growth

\$ in Million



As of March 31, 2018

- Portfolio NAV increased 17% quarter-over-quarter
- Net invested capital for the first quarter on par with commitment pace

## Top Five Drivers for the Quarter Ending March 31, 2018

Investment Name	Investment Strategy	Vintage Year	Net Value Change (\$M)	Point to Point IRR	Since Inception IRR	Total Value Multiple
Brookfield Infrastructure Fund III, L.P.	Infrastructure	2016	\$0.3	5.91%	13.76%	1.13x
GSO Energy Select Opportunities Fund, L.P.	Natural Resources	2015	\$0.2	2.19%	18.70%	1.21x
KKR Global Infrastructure Investors II, L.P.	Infrastructure	2015	\$0.1	1.52%	11.18%	1.12x
EQT Infrastructure III, L.P.	Infrastructure	2017	\$0.1	4.66%	8.90%	1.06x
Actis Energy 4, L.P.	Infrastructure	2017	\$0.1	3.61%	(9.34%)	0.95x
<b>Subtotal</b>			<b>\$0.8</b>	<b>3.10%</b>	<b>13.03%</b>	<b>1.12x</b>

- The top five partnerships accounted for 97% of positive net value gain during the quarter
- Brookfield and GSO driven by underlying investment performance
  - Combined distributions of \$0.7M for the quarter

## Bottom Five Drivers for the Quarter Ending March 31, 2018

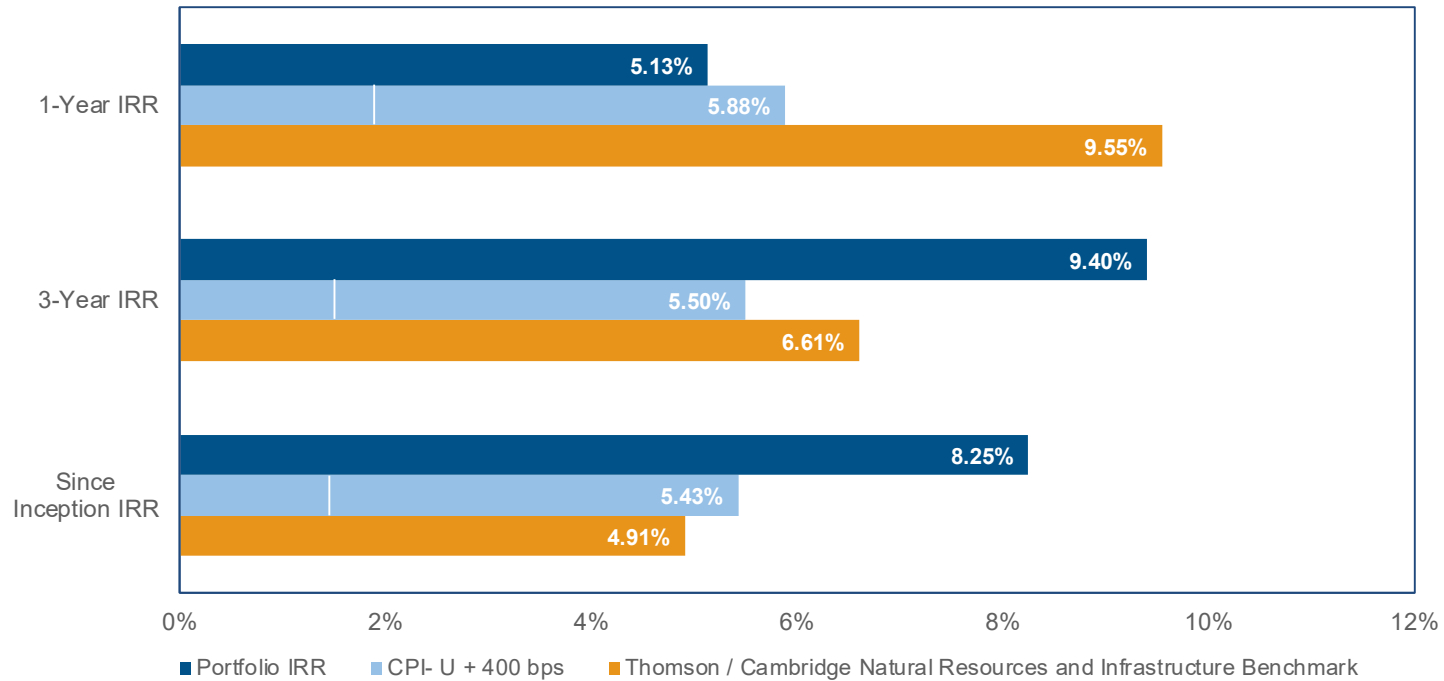
Investment Name	Investment Strategy	Vintage Year	Net Value Change (\$M)	Point to Point IRR	Since Inception IRR	Total Value Multiple
Avenue Energy Opportunities Fund, L.P.	Natural Resources	2015	(\$0.4)	(2.85%)	8.39%	1.21x
Avenue Energy Opportunities Fund II, L.P.	Natural Resources	2017	(\$0.3)	(6.30%)	(7.31%)	0.95x
Stonepeak Infrastructure Fund III, L.P.	Infrastructure	2018	(\$0.1)	(46.51%)	(22.90%)	0.77x
Actis Energy 3, L.P.	Infrastructure	2013	(\$0.1)	(1.25%)	14.01%	1.32x
EnCap Energy Capital Fund XI, L.P.	Natural Resources	2017	(\$0.1)	(12.45%)	(44.83%)	0.82x
<b>Subtotal</b>			<b>(\$0.9)</b>	<b>(3.68%)</b>	<b>8.28%</b>	<b>1.14x</b>

- The bottom five partnerships accounted for 94% of net value decline during the quarter
- The decline in oil prices and energy volatility in the first quarter affected performance in the Avenue Energy funds

Portfolio Summary					
\$ Millions	Quarter Ending				Year Ended
	6/30/2017	9/30/2017	12/31/2017	3/31/2018	3/31/2018
Beginning Market Value	\$48.0	\$49.7	\$58.2	\$72.6	\$48.0
Paid-in Capital	4.0	7.4	13.0	13.9	38.3
Distributions	(2.0)	(0.1)	(0.8)	(1.1)	(4.1)
<b>Net Value Change</b>	<b>(0.3)</b>	<b>1.2</b>	<b>2.2</b>	<b>(0.1)</b>	<b>3.1</b>
Ending Market Value	\$49.7	\$58.2	\$72.6	\$85.3	\$85.3
<b>Unfunded Commitments</b>	<b>\$108.1</b>	<b>\$106.1</b>	<b>\$108.5</b>	<b>\$125.5</b>	<b>\$125.5</b>
Total Exposure	\$157.8	\$164.3	\$181.1	\$210.8	\$210.8
Point-to-Point IRR	(0.54%)	2.36%	3.41%	(0.11%)	5.13%
Since Inception IRR	8.89%	9.00%	9.72%	8.25%	8.25%

- Two of four quarters with positive performance during the year
  - Ten partnerships generated net value gains of \$4.0M, driven by Infrastructure partnerships
- Market value grew 77% over the year – new partnerships investing capital

**IRR Performance as of March 31, 2018**



\*Portfolio since inception is 9/24/2013

- Portfolio outperforms designated public benchmark, the Consumer Price Index – All Urban Consumers (CPI-U) across 3-year and since inception time periods
  - Since inception outperformance of 282 bps
- Since inception, Portfolio outperforms Thomson/Cambridge Natural Resources and Infrastructure benchmark by 334 bps



## Review of themes and objectives identified for 2018

### Manage PRR Exposure

- 2018 allocation currently at \$60.0M across three partnerships, with \$15.0M pending

### Manager Exposure

- Added one new relationship to Portfolio (Digital Colony) and committed to two existing (KKR and GSO)

### Short Term Performance and Liquidity

- Brookfield and Stonepeak distributed \$1.0M to-date in 2018

### Portfolio Diversification

- Industry and geographical exposures continue to evolve as Portfolio develops

### Investment Guidelines

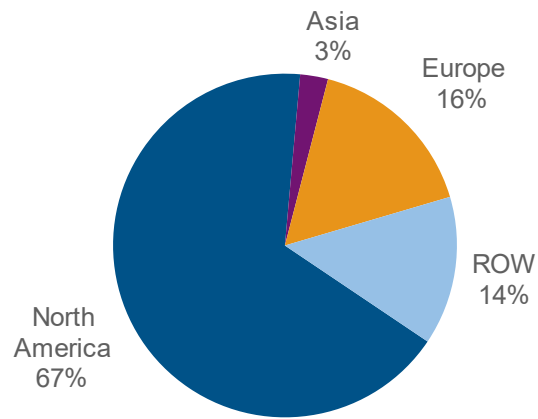
- Attended vote at Board meeting to approve

2018 YTD Commitment Activity				
Closing Date	Partnership	Investment Strategy	Geographic Focus	Commitment (\$mil)
3/29/2018	KKR Global Infrastructure Investors III, L.P.*	Infrastructure	Global	\$15.0
7/12/2018	GSO Energy Select Opportunities Fund II, L.P.*	Natural Resources	North America	\$15.0
7/17/2018	Digital Colony Partners, L.P.	Infrastructure	Global	\$15.0
TBD 3Q	Fund A*	Natural Resources	Global	\$15.0
<b>2018 YTD Total</b>				<b>\$60.0</b>

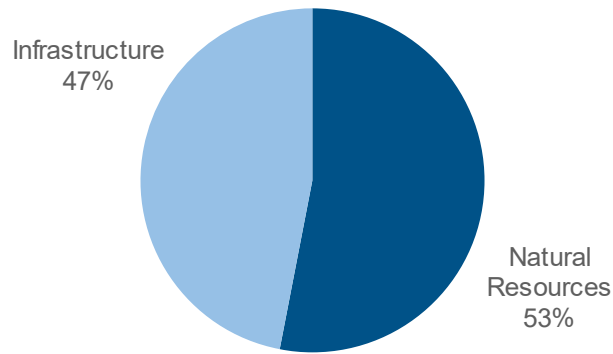
\*Existing manager relationship

- 2018 allocation: three commitments closed, one commitment pending, and 1-2 additional commitments expected
- Pending commitment represents existing manager relationship
- Pipeline remains strong for new opportunities

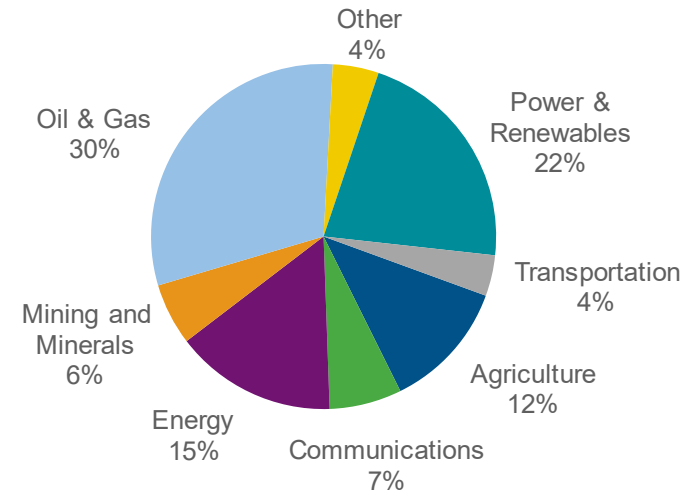
**Underlying Diversification  
by Geographic Location  
As of March 31, 2018**



**Strategic Diversification  
by Total Exposure  
As of March 31, 2018**

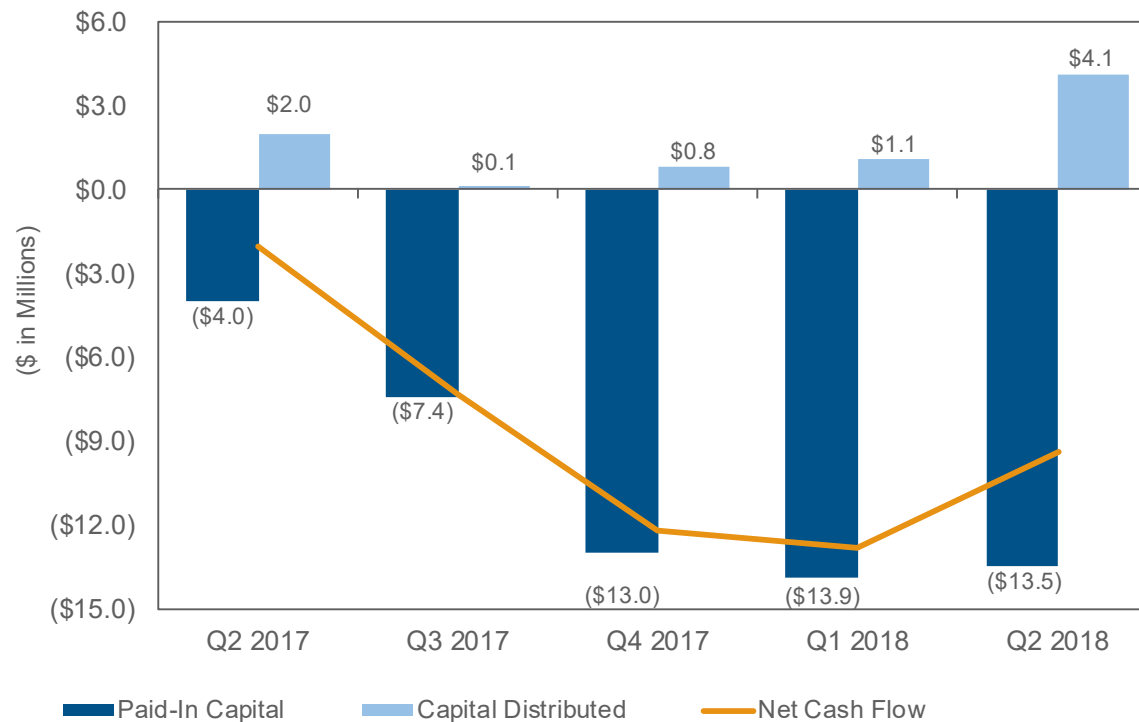


**Underlying Investment Diversification  
by Industry  
As of March 31, 2018**



- Geography – Europe increased by 2% due to underlying investments, North America declined as a result
- Strategy – Slight increase to Infrastructure exposure over the quarter
- Industry – Oil & Gas decreased 3% due to volatility in the energy markets

## Net Portfolio Cash Flow Activity



- Paid-in capital activity consistent over last 3 quarters
  - Majority of partnerships called capital over the period
- Quarterly distributions reached \$4.1M in the second quarter
  - Actis Energy 3 returned \$2.5M related to the realization of an underlying portfolio company



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# Deal Reviews

Digital Colony Partners, L.P.

GSO Energy Select Opportunities Fund II, L.P.

Fund Information	
General Partner:	Digital Colony GP, LLC ("Digital Colony")
Fund:	Digital Colony Partners, L.P.
Firm Inception:	2017
Fund Size:	\$3 billion / \$4 billion Hard Cap
Strategy:	Infrastructure
Geography:	Global
Team:	14 investment professionals, 3 operating professionals and 6 Senior Advisors
Senior Partners:	Marc Ganzi and Ben Jenkins
Location	Boca Raton, FL; New York and Los Angeles
Industries	Digital Infrastructure
Target Number of Investments	Approximately 10

## Approach:

- Will invest across various subsectors within digital infrastructure, with a focus on data centers, towers and fiber
- Digital Colony targets a range of global markets, with returns determined by country risk profile, regulatory environment and macroeconomic conditions
- The General Partner protects its downside through conservative leverage. Typically ranging from 25% to 50% loan-to-value
- Expects to invest approximately 30% of capital in wholesale data centers, 20% in enterprise data centers, 20% in macro towers and 30% in fiber networks and small cell networks
- Will invest globally and expects to invest 30% of capital in North America, 30% in Europe, 20% in South America, and 20% in other regions

Digital Bridge Holdings, LLC - Prior Investment Performance As of 9/30/17						
(\$mm)	Investment Date	Amount Invested	Amount Realized	Unrealized Value	Gross Multiple	Gross IRR
Company						
DataBank	Jul-16	\$304.0	\$0.0	\$538.6	1.8x	80.6%
Mexico Tower Partners	May-14	\$238.1	\$0.0	\$380.6	1.6x	18.6%
ExteNet Systems	Nov-15	\$621.3	\$0.0	\$745.7	1.2x	11.2%
Andean Tower Partners	Nov-15	\$50.7	\$0.0	\$60.4	1.2x	23.5%
Vertical Bridge	Aug-14	\$984.3	\$0.0	\$1,096.4	1.1x	4.7%
Vantage Data Centers	Mar-17	\$677.8	\$0.0	\$527.3	1.0x	0.0%
<b>Total</b>		<b>\$2,876.2</b>	<b>\$0.0</b>	<b>\$3,349.0</b>	<b>1.2x</b>	<b>9.6%</b>

### Key Features:

- Digital Bridge historically acted as a management team for institutional sponsors with investments made on a one-off basis
- Generated attractive current cash flows, with a portfolio-wide yield of 6.4%
- Digital Bridge has historically not marked to market due to its valuation policies, but is generating attractive gross returns based on public comparables
- Due to its buy-and-build strategy, Digital Bridge typically deploys significant capital following its initial investment
- The General Partner is targeting a 15% to 20% gross IRR and 11% to 15% net IRR, which is above market compared to other infrastructure managers

**On behalf of SBCERS', Hamilton Lane approved a \$15.0 million commitment to Digital Colony Partners, L.P.**

Fund Information	
General Partner:	GSO Capital Partners (“GSO”)
Fund:	GSO Energy Select Opportunities Fund II, L.P.
Firm Inception:	2005
Fund Size:	\$5 billion
Strategy:	Special Situations
Geography:	North America
Team:	23 investment professionals, 3 petroleum engineers and 2 legal consultants
Senior Partners:	Robert Horn and Michael Zawadzki
Location	New York and Houston
Industries	Energy
Target Number of Investments	15 to 25

### Approach:

- GSO intends to invest primarily in upstream and midstream assets, limiting exposure to downstream assets
- Focuses on U.S. companies engaged in the exploration and production of oil and natural gas, midstream infrastructure, energy services and equipment, refinancing and markets, power generation and transmission, renewable energy and coal
- Target investment opportunities across the North American upper middle-market, with most investment sizes expected to be between \$150 million and \$350 million
- GSO intends to generate the majority of returns through current income while securing upside through equity participation



GSO Capital Partners - Prior Investment Performance As of 12/31/17						
(\$mm)	Vintage	Amount Invested	Amount Realized	Unrealized Value	Gross Multiple	Gross IRR
Company						
Pre-Fund	2006	\$4,905.9	\$4,720.3	\$2,018.3	1.4x	19.8%
Fund I	2015	\$1,596.8	\$269.3	\$1,644.9	1.2x	24.0%
<b>Total</b>		<b>\$6,502.8</b>	<b>\$4,989.6</b>	<b>\$3,663.2</b>	<b>1.3x</b>	<b>20.1%</b>

## Key Features:

- Generated attractive gross returns, although Fund I performance is driven primarily by the largely unrealized portfolio
- Produced attractive returns on a multiple basis, particularly in the more developed Pre-Fund investments
- General Partner has produced attractive net returns, with Fund I outperforming credit benchmarks
- Fund I investments are performing in-line with or above expectations, with several investments expected to be marked up in the near-term

**On behalf of SBCERS', Hamilton Lane approved a \$15.0 million commitment to GSO Energy Select Opportunities Fund II, L.P.**



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## Appendix

As of March 31, 2018

Investment Name	Vintage Year	Investment Strategy	Capital Committed	Paid-In Capital	Unfunded Commitment	Capital Distributed <sup>1</sup>	Reported Market Value	Net IRR <sup>2</sup>	Net Multiple
U.S. Farming Realty Trust II, L.P.	2012	Natural Resources	\$8,000,000	\$8,591,133	-	\$859,299	\$8,670,548	2.89%	1.11x
Actis Energy 3, L.P.	2013	Infrastructure	6,000,000	4,850,531	1,248,639	92,143	6,294,000	14.01%	1.32x
Apollo Natural Resources Partners II, L.P.	2015	Natural Resources	15,000,000	8,245,533	7,835,432	2,942,411	6,942,880	19.99%	1.20x
Avenue Energy Opportunities Fund, L.P.	2015	Natural Resources	10,000,000	10,127,592	-	65,975	12,171,819	8.39%	1.21x
EnCap Energy Capital Fund X, L.P.	2015	Natural Resources	10,000,000	7,370,695	3,254,297	1,431,763	6,963,665	13.15%	1.14x
GSO Energy Select Opportunities Fund, L.P.	2015	Natural Resources	15,000,000	6,283,837	9,272,074	555,911	7,036,460	18.70%	1.21x
KKR Global Infrastructure Investors II, L.P.	2015	Infrastructure	10,000,000	8,495,905	2,420,096	745,145	8,804,195	11.18%	1.12x
Brookfield Infrastructure Fund III, L.P.	2016	Infrastructure	15,000,000	6,028,468	9,221,851	695,583	6,104,866	13.76%	1.13x
Global Infrastructure Partners III, L.P.	2016	Infrastructure	15,000,000	6,011,243	9,622,698	249,601	5,398,692	(7.72%)	0.94x
Waterton Mining Parallel Fund, L.P.	2016	Natural Resources	5,000,000	1,231,475	3,768,525	-	1,519,088	15.84%	1.23x
Actis Energy 4, L.P.	2017	Infrastructure	10,000,000	2,987,119	7,012,881	520	2,842,000	(9.34%)	0.95x
Avenue Energy Opportunities Fund II, L.P.	2017	Natural Resources	15,000,000	5,250,000	9,750,000	-	5,003,156	(7.31%)	0.95x
EnCap Energy Capital Fund XI, L.P.	2017	Natural Resources	15,000,000	1,060,451	13,939,549	-	869,377	(44.83%)	0.82x
EQT Infrastructure III, L.P.	2017	Infrastructure	9,757,630	2,819,712	6,922,965	-	2,990,412	8.90%	1.06x
Stonepeak Infrastructure Fund III, L.P.	2018	Infrastructure	15,000,000	435,742	14,564,258	-	335,946	(22.90%)	0.77x
Hancock Timberland and Farmland Fund LP	2018	Commodities	15,000,000	3,340,200	11,659,800	-	3,339,020	(0.15%)	1.00x
KKR Global Infrastructure Investors III, L.P.	2018	Infrastructure	15,000,000	-	15,000,000	-	-	N/A	N/A
<b>Total Portfolio:</b>			<b>\$203,757,630</b>	<b>\$83,129,635</b>	<b>\$125,493,065</b>	<b>\$7,638,351</b>	<b>\$85,286,124</b>	<b>8.25%</b>	<b>1.12x</b>

<sup>1</sup>Capital distributed includes recallable returns of capital, which will increase the unfunded commitment

<sup>2</sup>The IRR net of Hamilton Lane fee is 8.02%

The analysis was completed using available information provided by the general partner of each investment, unless otherwise noted. Cash flows are representative of SBCERS' actual cash paid and received. Market values reflect SBCERS' unrealized interest in each investment. The IRRs are representative SBCERS' return to date and not the IRR reported by the general partner.

Santa Barbara County Employees' Retirement System - Manager Monitoring Private Natural Resources and Infrastructure			
Fund Manager	Significant Events (Yes/No)	Last HL Meeting	Comments
Actis Energy	No	March 2018	• N/A
Apollo Management	No	July 2018	• N/A
Avenue Capital Group	No	April 2018	• N/A
Brookfield Asset Management	No	May 2018	• N/A
EnCap Investments L.P.	No	July 2018	<ul style="list-style-type: none"> <li>• Fund XI held a final close in December, total commitments of \$7.0 billion</li> <li>• GP reached a settlement with SEC to pay a penalty of \$500,000 in regards to SEC's claim surrounding certain political contributions</li> </ul>
EQT Partners	No	October 2017	<ul style="list-style-type: none"> <li>• Fabian Gröne (Singapore) and Jan Vesely (New York) were promoted to Partner</li> </ul>
Global Infrastructure Partners	No	May 2018	<ul style="list-style-type: none"> <li>• Hired a new Partner and Chair of GIP Credit (Jennifer Powers), Chief Risk Officer, 8 new Associates/Senior Associates, and four new professionals in Finance and Investor Relations</li> </ul>
GSO Capital Partners LP	No	May 2018	<ul style="list-style-type: none"> <li>• Dwight Scott was promoted to President from Senior Managing Director in Q1 2018</li> <li>• GSO acquired Harvest, an MPL equities manager to assist the management of MPL investments</li> <li>• Tripp Smith, currently Senior Managing Director &amp; Co-founder of GSO, is expected to depart the management company by 6/30/18.</li> </ul>
Hancock Natural Resources Group	No	October 2017	• N/A
International Farming Corporation	No	May 2015	• N/A
Kohlberg, Kravis, Roberts & Co. (AKA: KKR)	No	July 2018	<ul style="list-style-type: none"> <li>• Hired James Cunningham, previously a Managing Director and head of midstream team at Denham Capital, as a Managing Director in October 2017</li> <li>• Hired Tim Osnabrug and Felipe Hamaoui, previously members of KKR America's Private Equity team, joined as a Director and a Principal, respectively</li> </ul>
Stonepeak Infrastructure Partners	No	July 2018	<ul style="list-style-type: none"> <li>• DJ Gribbin joined as a Senior Operating Partner</li> </ul>
Waterton Global Resources Management, Inc	No	February 2018	• N/A

\*N/A represents no material update

Santa Barbara County Employees' Retirement System - Placement Agent Disclosures for 2018				
External Manager	Fund	Placement Agent(s) Disclosed	Placement Agent(s) Compensation	Material Violations?
Kohlberg Kravis Roberts & Co.	KKR Global Infrastructure Investors III, L.P.	N/A	N/A	No
GSO Capital Partners	GSO Energy Select Opportunities Fund II, L.P.	N/A	N/A	No
Digital Colony Partners	Digital Colony Partners, L.P.	N/A	N/A	No

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The following hypothetical example illustrates the effect of fees on earned returns for both separate accounts and fund of funds investment vehicles. The example is solely for illustration purposes and is not intended as a guarantee or prediction of the actual returns that would be earned by similar investment vehicles having comparable features. The example is as follows: The hypothetical separate account or fund of funds consisted of \$100 million in commitments with a fee structure of 1.0% on committed capital during the first four years of the term of the investment and then declining by 10% per year thereafter for the 12-year life of the account. The commitments were made during the first three years in relatively equal increments and the assumption of returns was based on cash flow assumptions derived from a historical database of actual private equity cash flows. Hamilton Lane modeled the impact of fees on four different return streams over a 12-year time period. In these examples, the effect of the fees reduced returns by approximately 2%. This does not include performance fees, since the performance of the account would determine the effect such fees would have on returns. Expenses also vary based on the particular investment vehicle and, therefore, were not included in this hypothetical example. Both performance fees and expenses would further decrease the return.

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