London Borough of Hillingdon Pension Fund
Adams Street Partners Update: Fourth Quarter 2011

Industry Update

Buyouts

In 2011, financing was more readily available for high-quality deals than it had been in the prior two calendar years. Although transaction volume slowed in the second half as investors focused on macro-economic concerns, this has again begun to reverse itself in early 2012. Credit availability and pricing has differed depending on transaction size, with the largest buyouts generally commanding higher debt multiples than small or medium-sized deals. We expect our GPs to take advantage of the improved credit environment through investing efforts that balance access to financing with price, recognizing that there continues to be a significant amount of uninvested capital targeted for buyout transactions. After a couple years of limited appetite for mega buyouts, more pronounced fundraising efforts in that space resumed in 2011, although, in general, we continue to see more robust demand for small-to-mid sized buyout funds from the LP community. Investment returns from buyouts have been strong over the past couple of years. Performance gains have been driven largely by valuation improvements in the meaningful amount of unrealized investments made during the 2005-2007 vintage years as these portfolio companies continue to rebound from the challenges of the financial crisis. The pace of realizations and associated distributions from GPs worldwide steadily advanced in 2011, with notable examples in the fourth quarter including Endurance International and within the energy space, Liberty JV. The sale of Liberty had a particularly positive impact on performance as Adams Street portfolios had exposure through primary, secondary and direct co-investment strategies. Although early 2012 exit activity has slowed, this is not unusual as GPs tend to favor distributing capital to LPs before year end. The opportunities to realize gains associated with investments made in prior years continue to improve.

Venture Capital

The volume of global IPO activity was volatile in 2011, starting the year strongly before drying up in the third quarter and then ending the year with a collection of high-profile companies like Groupon, Zynga, Angie's List and Michael Kors, which all went public in the fourth quarter. During the first quarter of 2012, global IPO activity slowed compared to recent and historical measures. That said, the tone of the market has become more receptive. With a substantial backlog of filed S1s and a strong global equity market, the IPO market appears to be poised to turn a corner. Much of the demand in IPO activity has focused on technology companies engaged in social networking or mobile devices. The highly-anticipated Facebook IPO is expected to happen in late spring and may pull a number of additional companies in the IPO pipeline to market around the same time. While headlines have been focused on Facebook and its market debut, we, as investors, must remain diligent as we monitor valuations, especially in the aforementioned sub-segments of technology, which have higher valuations relative to other opportunities in venture space. Like buyouts, venture capital has generated strong investment performance over the past couple of years. This is due to a combination of improving company fundamentals, up rounds of follow-on financing and more realizations. We believe that many of our more fundamentally sound and established portfolios companies will receive attractive valuations and be afforded more exit opportunities either through the public markets or strategic acquisition.

Portfolio Statistics as of December 31, 2011

	Inception Date	Committed / Subscription	Drawn / Subscription	Drawn / Committed	Total Value / Drawn	IRR Since Inception*	Public Market	4Q11 Gross IRR
Total Hillingdon Portfolio	**02/2005**	**98%**	**73%**	**74%**	**1.12x**	**6.00%**	**0.08%**	**5.34%**
2005 Subscription	02/2005	100%	82%	82%	1.14x	6.11%	0.40%	4.95%
2006 Subscription	01/2006	100%	75%	75%	1.08x	5.10%	-0.01%	4.53%
2007 Subscription	01/2007	100%	64%	64%	1.16x	9.91%	1.16%	4.08%
2009 Subscription	01/2009	60%	27%	46%	1.14x	26.36%	4.14%	6.77%
Direct Co-Investment Fund	09/2006	100%	96%	96%	0.97x	0.68%	-2.71%	-0.63%
Co-Investment Fund II	01/2009	100%	28%	28%	1.56x	42.02%	4.90%	47.49%

*Gross of client's management fees paid to Adams Street Partners, LLC.

Note: The Public Market is the equivalent return achieved by applying Hillingdon's cash flows to the MSCI World Index.

Main Drivers of Performance

Our portfolios rebounded very nicely in the fourth quarter after a dip in the third quarter. Overall, 2011 was a very strong year with total distributions from our GPs reaching a record level. Across our Direct Funds, the fourth quarter saw mark-ups of 10% in aggregate, with the combined portfolio up 23% for the calendar year. A much-improved financing environment, combined with more receptive exit markets, has led to upward pressure on valuations, particularly in certain sectors. Those higher valuations bode well for existing portfolio investments but warrant caution when making new investments.

Portfolio Outlook

While from an economic standpoint the history of 2011 will be written as the tale of two halves, many are hopeful that the story of 2012 will be a steady and consistent global recovery. Although economic activity in the first half of 2011 was encouraging, the tide changed abruptly in mid-year. As we enter 2012, glimmers of economic stability are appearing and are being reflected in the continued rebound in risky asset prices worldwide. While concerns about the future sovereign debt issues remain, expectations seem to be moving in a more consistent, upward direction as fears of a global recession diminish.