London Borough of Hillingdon Pension Fund
Adams Street Partners Update: Second Quarter 2012

Industry Update

Buyouts

Although debt markets in the US are extremely liquid, and sponsored loan volume through mid-year 2012 is ahead of last year's pace, much of the activity continues to go toward refinancing and dividend recaps. Funding used for buyouts and/or acquisitions represented only 30% of loan volume during the first half of the year. Buyout loan volume has been most concentrated in the IT and energy sectors, combining for just over 40% of the total, as investors have gravitated toward these areas of the market in an environment that continues to be dominated by uncertainty over macro-issues ranging from European debt, to the US Presidential election to less rapid growth in China. Debt multiples as well as overall purchase price multiples for LBOs in general during the first half of 2012 are down modestly from 2011 and 2010 levels, with multiples for larger deals continuing their pattern of being higher than those of smaller to medium-sized deals. In the US, the high yield market remains a viable source of funding for LBOs, acquisitions and refinancing. High yield issuance is stronger than at the midpoint of 2011, but below levels seen in 2010 when the high yield market was crucial to providing liquidity in an economy just coming out of the financial crisis.

Fundraising is well below levels seen in the 2005-2008 vintage years, as GPs continue to work their way through funds that are nearing the tail end of respective investment periods and LPs have been selective in making new commitments. Small to mid-sized funds have been appealing to investors attracted to empirical evidence of lower entry multiples and higher realized exit multiples over several investment cycles. Large and even mega funds have begun to return to the market in the past year, although in many cases with less aggressive fundraising targets than in prior, overheated, vintages, which in the long run should have a positive impact on performance. Due to these factors, there is a bifurcation in fundraising across fund sizes. High quality, stable managers with solid track records find themselves in many cases to be oversubscribed, while other managers have been forced to delay their next fund indefinitely.

Venture Capital

Venture capital headlines were dominated by the lead up to and subsequent issues surrounding the Facebook IPO in mid-May. The size of the IPO skewed US proceed volume metrics upward for the first half of the year to levels not seen in the past decade, despite the fact that the actual number of IPOs in the US is only on pace to reach the fairly pedestrian totals experienced in 2011. Globally, IPO proceed levels in the second quarter were down 37% year-on-year, despite the strong contribution of Facebook. The Asia Pacific region continues its reign as the most active IPO market, despite the lower absolute level of proceeds.

The disappointing post-IPO public stock performance of Facebook, Zynga and others is well-documented leading to an even more discriminating IPO exit window for those that followed in the second quarter. In the US, there were only 11 venture-backed IPOs in the second quarter, 6 of which were in Adams Street backed GP portfolio companies. There were an additional 102 M&A deals involving US venture-backed companies. It appears that the headlines masked some solid post-IPO returns coming globally from venture-backed companies with post-IPO public stock returns up 12% on an equal-weighted basis during the quarter.

Venture investment activity has accelerated as we have moved through 2012, with the second quarter volume up 17% relative to the first quarter, and the number of venture investments made rose 11%. Early stage and first time financing metrics were strong, an important indicator considering their importance to the US/global innovation pipeline.

Portfolio Statistics as of June 30, 2012

	Inception Date	Committed / Subscription	Drawn / Subscription	Drawn / Committed	Total Value / Drawn	IRR Since Inception*	Public Market	2Q12 Gross IRR
Total Hillingdon Portfolio	**02/2005**	**99%**	**77%**	**78%**	**1.15x**	**6.45%**	**1.38%**	**-0.47%**
2005 Subscription	02/2005	100%	86%	86%	1.17x	6.54%	1.50%	-0.92%
2006 Subscription	01/2006	100%	80%	80%	1.11x	5.62%	1.32%	-0.62%
2007 Subscription	01/2007	100%	67%	67%	1.18x	9.66%	2.71%	-0.54%
2009 Subscription	01/2009	73%	32%	44%	1.14x	21.25%	6.72%	-1.13%
Direct Co-Investment Fund	09/2006	100%	96%	96%	1.04x	2.15%	-1.14%	2.71%
Co-Investment Fund II	01/2009	100%	39%	39%	1.40x	33.43%	7.36%	0.24%

*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 flow s to the MSCI World Index.

Main Drivers of Performance

During the second quarter, public equity benchmarks were down in the range of 3-5%. Our private equity returns outpaced the market with our US portfolio relatively flat and the non-US portfolio down less than 2%.

Portfolio Outlook

While it appeared that the US economy may have been recovering and the predicament in Europe may have finally stabilized, that reality failed to materialize during the quarter. The US economy continued to show considerable weakness. High levels of uncertainty relating to taxes, regulation, and the upcoming presidential election remained. This is the third straight year where improvements in the economic activity recorded in the first quarter have been followed by a slowdown in economic activity in the ensuing summer months.