

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

## Industry Update

### Buyouts

In 2011, the global buyout market continued to recover as capital deployment and exit activity improved. Even with the European sovereign debt crisis and a downgrade of the US credit rating, new commitments to global buyout funds rose significantly from 2010 but stalled going into the fourth quarter. Dividend recapitalizations and distributions markedly increased over the past year. Deal activity slowed in the second half of the year as financing for new deals became more expensive. The increased ability of many GPs to realize investments and return capital to LPs benefited the recent performance of our buyout funds. As appetite for mega buyouts dwindles, we expect demand for smaller buyout funds to continue as smaller funds may be in a better economic position to offer lower purchase multiples, higher growth rate potential and the ability to implement impactful operational initiatives. GPs have been exiting investments and returning capital. We are optimistic that this trend will continue especially considering the record amount of capital on company's balance sheets. We feel comfortable that many of our buyout managers have focused on managing their portfolio companies through this challenging economic cycle and will demonstrate the appropriate caution as they seek new opportunities for investment.

### Venture Capital

Through the first half of 2011, performance had improved amidst relatively active exit markets. In the third quarter, the IPO market closed with some companies postponing their IPOs as public market volatility made pricing challenging. Many 2011 IPOs ended the third quarter below the initial issue price, infusing additional caution into the minds of investors. The opportunity set for future venture capital investments remains interesting especially for companies with potential breakthrough technology and solid business models. Valuations, although down modestly from prior quarters, remain frothy in consumer internet, mobile, and cloud computing. While there continues to be some interest in life sciences and clean technology, the scarcity of capital and lack of exit opportunities is challenging for GPs.

Overall, 2011 will be a stronger fundraising year than 2010 yet venture fundraising for the third quarter was the lowest quarterly fundraising total since 2003. The flight to quality trend continued as three well-established GPs dominated the fundraising landscape accounting for nearly 60% of all capital raised through the end of September. Despite improving fundraising, this year represents the fourth calendar year in a row where venture firms invested more capital than what they raised thereby reducing some of the capital overhang from earlier periods. We continue to invest with a strong portfolio of venture capital managers that offer compelling and interesting investment opportunities.

The exit pipeline has been mixed in 2011. Acquisition activity has been steady while IPO activity dropped quickly in the third quarter. During the fourth quarter, both Zynga and Groupon went public to a lukewarm reception. As we enter 2012, market excitement is increasing for the Facebook IPO which is anticipated to take place in the second quarter of this year. We expect exit market activity to continue albeit at a slower pace due to persistent economic concerns. Within our Partnership and Direct Funds, valuations for companies, especially those in social media, continue to rise. Though the final realizations have yet to be determined, we believe that the solid operational performance that many of these companies have generated will result in stronger investment performance for our portfolios.

## Portfolio Statistics as of September 30, 2011

	Inception Date	Committed / Subscription	Drawn / Subscription	Drawn / Committed	Total Value / Drawn	IRR Since Inception*	Public Market	3Q11 Gross IRR
<b>Total Hillingdon Portfolio</b>	<b>02/2005</b>	<b>97%</b>	<b>69%</b>	<b>71%</b>	<b>0.77x</b>	<b>5.03%</b>	<b>-1.77%</b>	<b>-3.72%</b>
2005 Subscription	02/2005	100%	79%	79%	1.10x	5.34%	-1.21%	-4.87%
2006 Subscription	01/2006	100%	71%	71%	1.05x	4.25%	-1.92%	-3.96%
2007 Subscription	01/2007	98%	57%	58%	1.14x	9.35%	-1.21%	-3.14%
2009 Subscription	01/2009	51%	21%	42%	1.12x	25.67%	-1.51%	0.97%
Direct Co-Investment Fund	09/2006	100%	96%	96%	0.97x	0.89%	-4.70%	-0.32%
Co-Investment Fund II	01/2009	100%	28%	28%	1.56x	15.50%	0.20%	3.30%

\*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

Non-US Fund performance was weak during the third quarter. Partially offsetting the Non-US Funds was good progress in the Direct and Co-Investment funds.

## Portfolio Outlook

As we move into 2012, we remain very optimistic about our existing portfolios and believe that we will continue to find exciting investment opportunities around the world. We are always available to discuss the opportunities and challenges of the private equity industry and their impact on your portfolio.