London Borough of Hillingdon Pension Fund
Adams Street Partners Update: Second Quarter 2013

Market Update

As we have discussed in the past few quarterly letters, private equity markets, while generating positive absolute returns, have generally lagged the very strong performance coming from public equity markets over the past couple of years. This follows a period when well-constructed private equity portfolios tended to weather the storm of the Great Financial Crisis (GFC) more effectively than public market equities. When evaluating results over the full cycle of falling and recovering global equity market prices over the past five plus years, our team has been very pleased with how our private equity portfolios have fared relative to other options. As many of you with more mature private equity portfolios will recall, activity on the purchase and sale side of private equity transactions grounded to a near standstill during the depths of the GFC and its immediate aftermath. Activity levels have rebounded dramatically, as best evidenced by the meaningful increase in distributions being generated within all Adams Street portfolios greater than even a couple years old.

Adams Street Partners is optimistic about this year's pace of distributions as we look at trends of the first half of 2013. Of particular note, we are on track to deliver another year of net cash back to our clients overall, which would extend our streak of net client distributions to 4 years. Obviously, clients with less mature portfolios that are still in the earlier stages of their respective investment life cycles are still receiving more capital calls than distributions as would be expected.

Portfolio Statistics as of June 30, 2013

	Inception Date	Committed / Subscription	Drawn / Subscription	Drawn / Committed	Total Value / Drawn	IRR Since Inception*	Public Market	2Q13 Gross IRR
Total Hillingdon Portfolio	**02/2005**	**99%**	**83%**	**84%**	**1.21x**	**7.10%**	**4.20%**	**2.12%**
2005 Subscription	02/2005	100%	90%	90%	1.23x	6.98%	3.95%	1.32%
2006 Subscription	01/2006	100%	86%	86%	1.17x	6.35%	4.25%	1.88%
2007 Subscription	01/2007	100%	78%	78%	1.22x	9.64%	6.11%	1.65%
2009 Subscription	01/2009	87%	45%	52%	1.16x	16.58%	11.67%	1.67%
Direct Co-Investment Fund	09/2006	100%	96%	96%	1.13x	3.65%	1.92%	5.62%
Co-Investment Fund II	01/2009	100%	55%	55%	1.47x	30.91%	11.19%	7.62%

*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.

Buyouts

The sources of liquidity can be interesting to observe. Within buyouts, we are seeing that funds aged 6-10 years old make up the majority of distributions for YTD 2013, followed by funds that are 3-5 years old. While the credit bubble from 2004-2007 created a brief period of increased distributions from relatively younger buyout funds, the trend of 6-10 year old funds driving buyout distributions has been fairly steady over time. We find that the increased liquidity is being generated by buyout funds across the size spectrum. This is due both to the diversified approach we take to building the buyout component of our strategy and to the fact that mega funds have had relatively less success exiting portfolio companies than their large and mid-sized brethren.

Importantly for many maturing portfolios, there has been a strong rebound in the performance of 2005-2007 vintage buyout funds. In 2009, these funds as a group were valued at well below cost and had distributed next to nothing back to investors. By year end 2012 the group is valued in excess of 1.2x paid-in-capital (TVPI) and distributions as a percentage of paid-in-capital (DPI) has grown significantly. For example, 2006 vintage year buyout funds in the Adams Street portfolio have seen their TVPI grow from 0.9x at the end of 2009 to 1.3x at the end of 2012. The DPI % has grown from 7% in 2009 to 44% in 2012. This is a direct function of gradually improving debt markets and the underlying general partners' ability to make the operational/economic improvements required within their respective portfolio companies to see them through the challenges of the financial crisis.

Venture Capital

The source of liquidity from venture capital funds tells a similar story. The most meaningful source of distributions over time has typically been 6-10 year old funds. This falls in line with our expectations of the time needed to grow a new business from in some cases infancy to the point of public offering or strategic acquisition. The obvious exception to this pattern was when the IT bubble in the late 1990s created a brief period of increased distributions from very young funds in our venture portfolio. The combination of sales price level and the speed with which they were achieved led to outstanding IRRs for funds of those late 1990s vintages. In recent years we have seen liquidity from venture funds specializing in a variety of industries. Our venture portfolio is heavily weighted toward IT funds, so not surprisingly those types of funds are the leading drivers of distributions, but our diversified and healthcare focused funds have also generated increased liquidity of late.

We want to highlight the strong share of the VC-backed IPO market achieved by the Adams Street venture general partners. Despite investing in only ~5% of the venture funds raised in the US over the past 20 years, we continue gain exposure to more than 50% of the VC-backed IPOs in both the IT and Healthcare sectors. This ability to access a high percentage of IPOs through a very low percentage of available venture funds reinforces the importance of being with the right general partners in venture space. Importantly, the post-IPO performance of these VC-backed companies has been quite positive. These strong post-IPO results help to build public market investor confidence, which can have the impact of generating more demand for private companies to go public. We are confident that this recent trend of increased exit activity can continue for the rest of the year.

Secondaries

Adams Street's secondary investments across our annual programs and dedicated funds have very successfully served their intended purposes of generating attractive performance and providing liquidity to clients early on in the life of their private equity investments. During this year, our 2010 and 2011 annual programs have already begun distributing capital back to investors due almost entirely to liquidity generated by funds purchased through secondary transactions. After a slowdown in secondary market volumes during the first half of 2013, we anticipate a meaningful increase in activity between now and the end of the year.