

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

Market Update

If there was one dominant theme in the private equity markets in 2013, it was the huge amount of liquidity generated by General Partners (GPs) in all subclasses on a global basis. The strong public equity markets helped contribute to a significant increase in IPO activity. In addition, very strong debt markets led to a surge in recapitalizations for many buyout fund portfolio companies.

Importantly, Adams Street Partners has been a meaningful beneficiary of this liquidity surge, sending a record amount of distributions back to our clients. Distributions from our underlying GPs totaled \$2.3 billion in 2013, up from \$1.9 billion in 2012. In terms of the US venture IPO market, Adams Street Partners funds directly or indirectly participated in 57% of the 74 venture-backed IPOs during the year, including Twitter and Zulily, which are meaningful events in the primary portfolio. Our direct venture/growth equity and co-investment portfolios had five portfolio companies launch IPOs. Importantly, the positive momentum of the public equity markets bodes well for more IPOs this year, particularly in the US where we expect our share of venture capital backed IPOs to remain around 60%. Indeed, the strong distribution pace has continued throughout the first quarter of 2014.

Portfolio Statistics as of December 31, 2013

	Inception Date	Committed / Subscription	Draw n / Subscription	Draw n / Committed	Total Value / Draw n	IRR Since Inception*	Public Market	4Q13 Gross IRR
Total Hillingdon Portfolio	02/2005	100%	85%	85%	1.31	8.58%	6.24%	7.76%
2005 Subscription	02/2005	100%	91%	91%	1.32x	8.11%	5.71%	6.85%
2006 Subscription	01/2006	100%	88%	88%	1.27x	7.87%	6.37%	7.68%
2007 Subscription	01/2007	100%	81%	81%	1.33x	11.63%	8.66%	9.62%
2009 Subscription	01/2009	100%	51%	51%	1.27x	19.87%	15.97%	9.12%
Direct Co-Investment Fund	09/2006	100%	96%	96%	1.18x	4.32%	3.78%	3.95%
Co-Investment Fund II	01/2009	100%	63%	63%	1.71x	36.76%	14.86%	15.58%

*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.

High Valuations: Great for Existing Investments, Challenging for New Investments

It's worth reminding investors of the long-term nature of the private equity asset class. Public market valuations impact our existing and future portfolios differently. Rising valuations depress current deployment rates, as prices for quality assets remain high. At the same time, higher valuations foster increased IPO activity and sales to highly valued and/or cash rich corporates, which benefits existing portfolios.

Our GPs, Venture Capital/Growth Equity, and Co-Investment Teams have been, and are generally likely to continue to be, more inclined to be sellers rather than buyers in this environment. Our GPs remain cautious on the buy side, but continue to find opportunities to invest with strong support from the debt capital markets. Over the past decade, we shifted our primary investment strategy away from generalist buyouts towards buyout managers with specialist skills in sourcing, understanding sectors, or being value buyers. We think this is especially important in the current environment. For example GPs that have a differentiated approach to sourcing include Trivest Partners, L.P. and Clearview Capital, LLC in the US, Latour Capital in France; GPs with deep sector knowledge include Oakley Capital Limited in the UK, Accel-KKR in the US and CMC in China.

Specific to our Primary investment activity, we made 24 investments around the world for a total of \$1.2 billion in 2013, 11 of which are new relationships. Often these were spinouts from existing firms (Aleph, Homebrew, Wing Ventures) or investors we have tracked for some time (Oakley, Clearview, Capitalworks, Da Vinci). All in all, these commitments represent a good mix of venture capital and small/mid-market buyout funds. Eighty-six percent of the funds we invested in were oversubscribed in the US and Europe, while only 50% were oversubscribed in Emerging Markets.

Our Venture Capital and Growth Equity Team is wary of the high valuations (particularly in the US, and predominantly in Silicon Valley) and shortened due diligence time periods. The price inflation in the private markets is a direct result of the high valuations that the public markets are bestowing on rapidly growing tech companies at scale. Suffice it to say that we have passed on many transactions for a later rounds of fundraising because they have been priced at 10X forward revenue. In this environment, we think that caution is warranted. The Venture Capital and Growth Equity Team has been actively sourcing transactions in areas outside of Silicon Valley, such as Europe and Israel which are relatively underfunded in venture. Prices have been creeping up, but are still less expensive than in Silicon Valley. This is similar to the rest of the US where prices have not reached Silicon Valley levels.

Finally, our Secondary Investment Team saw a slowdown in activity in 2013, due to pricing being driven up to high levels (often premiums to NAV) by well-funded competitors. After a slow first half of the year, volume picked up in the second half; nevertheless the market was very competitive and highly priced. We lost a number of transactions and closed seven (mostly outside the US) for a total of \$200 million, which was the lowest volume since 2007. Since the beginning of 2014, deal flow has picked up.

Final Thoughts

For additional commentary and perspectives from our CIO Hanneke Smits and each of our Investment Teams about 2013 and our outlook for the balance of 2014, we encourage you to read our Spring Newsletter. Lastly, we are pleased to report that our CEO Bon French was selected by the editorial teams of Reuters News, Reuters Deals Group, Buyouts Magazine, and Venture Capital Journal as an inaugural recipient of a Lifetime Achievement Award, recognizing his contributions to the private equity industry. Bon was honored at an awards dinner during Reuters' PartnerConnect Conference in New York City on March 26, its flagship alternatives event.