London Borough of Hillingdon Pension Fund
Adams Street Partners Update: Second Quarter 2009

Industry Update

During the second quarter of 2009, we began to see some small improvements in performance from many private equity General Partners ("GPs") as they began to write up portfolios given the positive movements in the public markets. As we mentioned last quarter, we were anxious to see if the GPs would write up their portfolios as aggressively as they wrote them down in the fourth quarter of 2008. What we found is that the GPs priced the upside appreciation more conservatively, but we were still pleased to see a positive number for the quarter. Given the 3rd quarter performance in the public markets, we would expect next quarter to be a positive quarter for the private equity market as well.

Portfolio Statistics

	Committed / Subscription	Drawn / Subscription	Drawn / Committed	Total Value / Drawn	IRR Since Inception *	Inception Date
Total Hillingdon Portfolio	94%	54%	58%	0.83x	-6.63%	02/2005

*Gross of client's management fees paid to Adams Street Partners LLC. Internal rates of return are not calculated for funds less than one year old, instead the return is the change in value over the amount invested.

Main Drivers of Performance

One area that many clients have asked about is secondaries. The volume for sale from distressed sellers that we saw in the fourth quarter of 2008 and early 2009 has declined as the public markets have recovered and the pace of capital calls remains slow. In addition, the phenomenon during the first quarter of 2009 of deals with material unfunded exposure and walk away pricing has declined. While the market opportunity is attractive and there has been a reasonable amount of deal flow, the overall volume of transactions being done has slowed as expected trends are taking longer than anticipated to develop. The bid-ask spread remains wide as sellers are generally skeptical on the deep discounts being offered by buyers. In order for this spread to narrow, one of two things needs to happen. Either capital calls need to increase and therefore cause sellers to again be in a position of distress where they have to sell or markets need to improve where buyers are willing to pay more. We have also seen an increase in secondary capital supply as there are several open funds in the markets and many "non-traditional" LPs (such as primary only LPs and sovereign wealth funds) have desired to participate in the market directly. We have seen a flight to quality as many buyers are focused on unlevered, more grow-oriented assets. Adams Street is well positioned to take advantage of dislocations in the secondary market with a dedicated team of 10 professionals and continues to be excited about the secondary market opportunity.

Portfolio Outlook

We remain optimistic on the outlook for private equity. In particular, we are excited about some of the U.S. venture capital opportunities. We have historically been overweight to this sector and continue to be currently. Although venture capital returns have been mediocre over the past decade, we believe there are several trends that will enable our venture portfolio to generate attractive returns. First and foremost is the scarcity of capital flowing into the subclass. Fundraising is down significantly and many GPs are concerned about their ability to raise their next fund. This uncertainty had led GPs to be very careful about how they invest their current capital, resulting in a slowdown of capital disbursements into venture-backed companies. Ultimately, the scarcity of capital will lead to a shakeout of managers in the venture business. We believe this shakeout is a positive development as less overall capital concentrated with the best firms in the industry should have a positive impact on returns as competition for deals, and therefore valuations, decreases. We are already beginning to see a decline in valuations. However, all this being said, without an exit market, returns will not be attractive. We are seeing some glimmers of hope in a number of IPOs and M&A events over the last couple of months. Although we are still far from a robust exit market, there are many large, profitable companies in the portfolio that will benefit once the window does open. The ASP venture portfolio has numerous portfolio companies with revenue greater than $50 million and many with revenue greater than $100 million, which are at an ideal size for going public or attracting corporate M&A offers. It is important to note that we see no sign of slowdown in entrepreneurship and technological advancement.