

**London Borough of Hillingdon Pension Fund  
Adams Street Partners Update: First Quarter 2016**

## Market Update

Public equity markets were particularly volatile during the first three months of 2016. In the US, a historically weak start to the year was offset by strength in March, leading to mixed overall results depending on the size and industry focus of respective indices. More broad based indices like the S&P 500 and Russell 3000 were up modestly for the first quarter, while smaller cap or technology-heavy indices like the Russell 2000 and NASDAQ were down. Developed market public equity returns were generally negative, but emerging market public returns were quite strong in the first quarter, supported both by solid local market returns and, in some cases, a currency rebound from distressed levels in the prior calendar year.

Overall venture returns were moderately negative during the first quarter. In late 2015, we began to see signs that the valuation environment was softening, and that trend accelerated into 2016. The IPO window was completely closed for technology companies and only opened for biotech companies late in the quarter. The five venture-backed IPOs in the period represent the lowest quarterly total since 2011. All five IPOs were in the biotech space, making this the first quarter since Q1 2009 without a technology IPO. The size of the offerings was also down, with the five companies raising only \$363M in aggregate. Fortunately, M&A activity for venture-backed companies remained solid during the quarter, with 79 announced deals. As seen in 2015, technology acquisitions continued to make up the majority of M&A deals. However, life sciences acquisitions matched their highest level in the last two years. In light of the drop in some portfolio company valuations, our managers are gradually shifting from net sellers to net buyers.

## Portfolio Statistics as of March 31, 2016

All in USD	Inception Date	Committed / Subscription	Draw n / Subscription	Total Value / Draw n	IRR Since Inception Gross	IRR Since Inception Net	Public Market	1Q16 Gross IRR	1Q16 Net IRR
<b>Total Hillingdon Portfolio</b>	<b>02/2005</b>	<b>100%</b>	<b>93%</b>	<b>1.42x</b>	<b>9.36%</b>	<b>6.87%</b>	<b>5.31%</b>	<b>-1.05%</b>	<b>-1.34%</b>
2005 Subscription	02/2005	100%	95%	1.37x	7.92%	5.77%	5.09%	-1.20%	-1.47%
2006 Subscription	01/2006	100%	95%	1.38x	8.69%	6.19%	5.36%	-2.70%	-2.78%
2007 Subscription	01/2007	100%	93%	1.52x	12.97%	9.71%	6.71%	-0.59%	-0.94%
2009 Subscription	01/2009	100%	78%	1.38x	16.75%	11.54%	7.92%	-0.27%	-0.47%
Co-Investment Fund	09/2006	100%	96%	1.44x	7.36%	5.27%	3.32%	4.63%	3.15%
Co-Investment Fund II	01/2009	100%	85%	2.00x	33.66%	27.04%	11.43%	1.22%	1.03%

### Notes:

- Since Inception figures in GBP are: **12.38% (Gross) and 9.75% (Net)**. Q1 2016 figures in GBP are: **2.18% (Gross) and 1.88% (Net)**.
- The Public Market is the equivalent return achieved by applying Hillingdon's cash flows to the MSCI ACWI TR.

## Performance Update

The London Borough of Hillingdon since inception performance is 9.36% IRR gross, 6.87% IRR net versus 5.31% IRR for the public market equivalent. The GBP equivalent figures for the portfolio are 12.38% IRR gross and 9.75% IRR net.

Buyout returns, in general, were moderately positive during the first quarter, as much of the valuation pressure applied to venture-backed companies was not evident in other subclasses. Sponsored loan volume during the period remained at similar levels to those of the first three months of 2015, and focused on buyout and acquisition needs in sectors like computers/electronics, services/leasing and food/beverage. Purchase price multiples for larger buyouts continued the year-on-year rise they've experienced since 2013, driving further valuation uplift. Meanwhile, mid-sized buyout purchase price multiples for transactions that occurred in Q1 2016 were more consistent with those from 2010-2014 than with what may have been a temporary spike in multiples paid during calendar year 2015. This development further enhances what we already view to be an attractive opportunity set in small and mid-sized buyout investments. Depending on portfolio company size, the equity contribution to these transactions continues to grow, or at least remain steady. We believe this will result in better capitalized companies during what could be an increasingly volatile market and economic environment.

While this report focuses predominantly on results through March 31, 2016, we are cognizant that you are receiving it in the wake of the UK's recent Brexit vote. While that vote has caused short-term declines in risk-asset valuations, the timing and impact of a potential withdrawal from the EU is uncertain. As a result, so too are its medium and longer term impacts on private company portfolios. Nonetheless, as with any macroeconomic event, this will have some impact on both Adams Street's existing portfolio and its future investment strategy. Adams Street Partners continues to monitor company fundamental performance, public market valuations, financing markets, and currency movements - the four major factors that impact private company returns. We also plan to maintain our recent net seller strategy and our relatively conservative buy-side strategy until we see a significant valuation dislocation, at which point we will invest aggressively. In summary, please be assured that Adams Street is focused on this event, and that we will continue to notify you of the implications of future Brexit negotiations on our firm, portfolio, and strategy.