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

Market Update

Equity market returns continued to accelerate during the three months ending September 30, building on modestly positive gains during the first six months of the year. Currency market volatility was tame by recent standards, allowing strong local market returns to flow through to investors regardless of base currency.

Diversified Adams Street portfolios generally kept pace with global public market equity indices during the quarter, while continuing to generate liquidity through a pickup in exit activity and ongoing efforts to sell down shares of portfolio companies that may have gone public in prior periods. In fact, overall distributions from our underlying general partners remain well above capital call levels through the first three quarters of 2016. Clients with more mature ASP investments are clearly experiencing this pattern as portfolios have transitioned to a net cash flow positive position, and even the more recent ASP vintages have already begun generating cash distributions for investors.

Portfolio Statistics as of September 30, 2016

All in USD	Inception Date	Committed / Subscription	Drawn / Subscription	Total Value / Drawn	IRR Since Inception Gross	IRR Since Inception Net	Public Market	3Q16 Gross IRR	3Q16 Net IRR
Total Hillingdon Portfolio	**02/2005**	**100%**	**94%**	**1.46x**	**9.44%**	**7.10%**	**5.47%**	**4.33%**	**4.10%**
2005 Subscription	02/2005	100%	95%	1.40x	8.04%	5.96%	5.25%	5.34%	5.06%
2006 Subscription	01/2006	100%	95%	1.42x	8.87%	6.47%	5.54%	4.63%	4.45%
2007 Subscription	01/2007	100%	94%	1.57x	12.95%	10.01%	6.94%	3.49%	3.33%
2009 Subscription	01/2009	100%	82%	1.43x	16.53%	11.81%	8.46%	3.17%	2.91%
Co-Investment Fund	09/2006	100%	96%	1.45x	7.10%	5.30%	3.55%	2.20%	1.82%
Co-Investment Fund II	01/2009	100%	85%	2.08x	32.16%	26.65%	11.57%	2.65%	2.33%

Notes:
- **Since Inception figures in GBP are: 13.08% (Gross) and 10.66% (Net). Q3 2016 figures in GBP are: 8.17% (Gross) and 7.93% (Net).**
- The Public Market is the equivalent return achieved by applying Hillingdon's cash flows to the MSCI All Country Index (MSCI ACWI TR).

Performance Update

The London Borough of Hillingdon since inception performance is 9.44% IRR gross, 7.10% IRR net versus 5.47% IRR for the public market equivalent. The GBP equivalent figures for the portfolio are 13.08% IRR gross and 10.66% IRR net.

Consistent with the theme of liquidity generation, the IPO window for venture-backed companies that cracked open in Q2 2016 continued to widen in the three months ended September 30. There were 16 venture-backed IPOs in the quarter, up from 5 in Q1 and 12 in Q2. In a change from prior quarters, only 6 of the 16 IPOs were from the life sciences sector, with 10 technology IPOs making up the bulk of new issues. The aftermarket performance of the Q3 IPOs was strong, with no companies trading below their offering level; perhaps a reflection of the relatively low issue prices as companies and bankers pursued more modest valuations to ensure a successful offering in what started as a difficult year overall for IPOs. M&A activity for venture-backed companies also rebounded in the quarter, with technology company acquisitions continuing to make up the majority by number of M&A deals. Overall sentiment in Silicon Valley remains cautious, but has definitely improved from earlier in the year when high profile down rounds of financing were regularly in media headlines and the tech IPO window was largely closed.

Often coupled with a period of strong net distribution activity is general concern over the prevailing valuations being paid for new investments. Adams Street and our underlying general partners share those concerns and have been particularly disciplined with new purchases taking place within our strategies. From a portfolio strategy perspective it’s a driving reason behind our preference for small and mid-sized funds in the buyout subclass. We find these funds to be more attractive not simply due to their size, but because they tend to invest in smaller companies with lower purchase price multiples and have less reliance on debt financing. These smaller businesses also tend to build value through organic growth factors, like market expansion and customer base diversification, that are less susceptible to evolving macro-economic headwinds over time. As smaller businesses grow into larger businesses, the purchase price multiples paid by strategic acquirers, other private investors, or through the IPO market historically have often increased, resulting in more opportunities for our general partners to sell larger businesses at higher multiples than were originally acquired. This strategy of focusing our portfolios on small to mid-sized funds and companies when we have the discretion to do so has long been a source of value-creation for our clients, and is particularly important in today’s market environment.