London Borough of Hillingdon Pension Fund
Adams Street Partners Update: First Quarter 2010

Industry Update

In recent periods our quarterly letters have discussed the performance recovery across multiple private equity sub-classes. Improved valuations and several successful IPOs and M&A events have benefited the returns of many portfolio companies and funds that we invest in on our clients' behalf. This improved performance continued in the first quarter of 2010. A substantial portion of these positive returns can be attributed to the worldwide economic recovery since the first half of 2009, and its impact on the prices of equities – public and private. Broadly speaking we can see, with a reporting lag, the reflection of public market movements within our portfolio due in part to fair value accounting procedures, which in many cases involve the use of public market comparables. The number of portfolio company sales or IPOs has been low from a historical context, so recent private equity returns have been primarily driven by changes in unrealized valuations and heavily influenced by the performance of public equity market comparables. Beginning in the 2nd quarter of 2010, we have seen a resurgence in global markets volatility primarily triggered by the European debt crisis which has served to remind investors that the health of the economy remains fragile despite its improvements.

Portfolio Statistics as of March 31, 2010

	Inception Date	Committed / Subscription	Drawn / Subscription	Drawn / Committed	Total Value / Drawn	IRR Since Inception*	Private Equity Market	Public Market
Total Hillingdon Portfolio	**02/2005**	**95%**	**59%**	**62%**	**0.92x**	**-0.79%**	**-3.23%**	**-2.30%**
2005 Subscription	02/2005	100%	71%	71%	0.96x	1.30%	-3.23%	-1.47%
2006 Subscription	01/2006	100%	61%	61%	0.87x	-2.51%	-6.37%	-2.76%
2007 Subscription	01/2007	88%	43%	49%	0.96x	2.82%	-3.17%	-1.47%
2009 Subscription	01/2009	26%	8%	32%	1.02x	43.26%	Too early	Too Early
Direct Co-Investment Fund	09/2006	100%	89%	89%	0.80x	-10.09%	-8.10%	-7.06%
Co-Investment Fund II	01/2009	100%	15%	17%	0.98x	15.68%	Too early	Too Early

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

Note: The Private Equity Market represents the performance of the vintage years, based on data from Venture Economics, that are comparable to those of the ASP vehicle. The Public Market is the equivalent return achieved by applying Hillingdon's cash flows to the MSCI EAFE Index.

Main Drivers of Performance

The 2009 subscription's strong early performance is due to secondary partnerships which we purchased at discounts. For many, the primary reason to add private equity to a diversified portfolio remains the potential for additional return relative to traditional asset classes. Historically, the illiquidity premium required by private equity investors relative to public equity has been 300 to 500 basis points per annum. In recognition of this, we regularly include as a component of our portfolio reviews the performance of each ASP subscription year's investments relative to that of a public market equivalent (PME). The PME is normally either the S&P 500 or MSCI World Equity Indices, but calculated on a cash flow weighted basis. In other words, if one invests $1 into our program, we take the same $1 and create a paper portfolio by investing $1 at the then current price of the corresponding index. If we distribute $1 from the ASP program, then we reflect that in the PME calculation by selling $1 worth of units of the corresponding index at the new current price. This methodology provides a dollar weighted comparison of investing in our partnership program versus investing in a passive public market index. Through December 2009, Adams Street Partners' more mature annual subscriptions from 1996 to 2004 have outperformed their respective PME by 300 to 1100 basis points per annum since inception. While private equity has struggled from an absolute return standpoint in the past decade, our actively managed portfolios have successfully added levels of value relative to the public markets that are consistent with or surpass the risk premiums normally expected of the asset class.

Portfolio Outlook

Private equity performance in general over the last decade has clearly been disappointing. Adams Street's performance during this same period has been somewhat mixed. Our ten year annualized performance for all discretionary partnership investments through December 31, 2009 was 7.7%. This well below our long-term absolute return expectation of 15%, but compared to most public indices this represents out-performance of 700-800 basis points per year. Looking out over the next ten year period, we are optimistic that the ingredients are in place to provide attractive performance on both an absolute and relative basis. In terms of absolute performance, we believe the combination of less capital in the industry and an improving exit environment provides the back drop for better investment performance. Further, we believe the private equity business model, which revolves around backing talented people, finding less efficient markets and strong corporate governance, will continue to outperform public markets by a healthy margin.