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

Industry Update

Growing concerns about macroeconomic issues dominated the market's attitude toward equities during the second quarter of 2010, as sovereign debt issues in Europe, weakness in US consumer spending, and an apparent slowing pace of economic recovery in most parts of the world more than overshadowed evidence of continued company level earnings growth. Public equity markets fell by -12.7% during the three months ended June 30 as measured by the MSCI World Equity Index (in USD terms), halting what had been a dramatic price rebound since March of 2009. Public equity markets have remained volatile in the third quarter 2010 as investors have reacted nervously to incremental pieces of data suggesting at least a "soft patch" in overall economic growth.

Private equity company valuations are not immune to these macroeconomic factors and, as would be expected, faced meaningful headwinds during the second quarter after four quarters of improving performance. Fluctuating currency exchange rates also impacted overall results during the second quarter. Many of the non-US investments in our portfolios are denominated in the euro. Given the second quarter weakness of that currency relative to many others (and in particular the US dollar), due in part to the above-mentioned concerns over the state of the European sovereign debt market, performance for non-US investments tended to be negatively impacted by currency exposure when evaluated from a US dollar perspective. Overall however, our private equity returns appear to have held up better than those of public market counterparts. This is due in part to some attractively priced exits during the quarter, but also to the likelihood that in many cases portfolio company valuation write-ups during the past year had been made more conservatively than public market advances alone would have suggested and therefore did not require large write-downs in the second quarter when public markets turned. More recent subscriptions to Adams Street Partners have also been benefited by solid valuation improvements in 2010 coming from secondary investments and exposure to our direct investments.

Portfolio Statistics as of June 30, 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%**	**61%**	**65%**	**0.92x**	**-0.64%**	**N/A**	**-5.89%**
2005 Subscription	02/2005	100%	73%	73%	0.95x	0.92%	N/A	-5.02%
2006 Subscription	01/2006	100%	63%	63%	0.86x	-2.58%	N/A	-6.29%
2007 Subscription	01/2007	88%	45%	51%	0.95x	2.48%	N/A	-6.21%
2009 Subscription	01/2009	26%	9%	34%	1.00x	30.59%	N/A	1.32%
Direct Co-Investment Fund	09/2006	100%	91%	91%	0.85x	-5.97%	N/A	-9.39%
Co-Investment Fund II	01/2009	100%	15%	17%	1.00x	11.60%	N/A	3.13%

*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. June 30th w as not available at print time. The Public Market is the equivalent return achieved by applying Hillingdon's cash flow s to the MSCI World Index.

Main Drivers of Performance

Buyouts

Buyout funds have clearly been impacted in a number of ways by the credit market boom, bust and continued fragile recovery. First, valuations fell dramatically through the first quarter of 2009. Most vulnerable were investments made in the 2005-2007 time period when the combination of purchase price multiples and the amount of debt available to finance those multiples were at historically high levels. Although the buyout subclass rebounded in the second half of 2009 into 2010, the likelihood of longer holding periods and challenged valuations suggests that investment performance for buyout investments made during the middle of the past decade will be below our longer term expectations. Second, buyout deal volume slowed dramatically as access to credit markets deteriorated. We are now seeing a pickup in activity, but still have a long way to go to get back to what we would consider to be more "normal" levels. The positive by-product of this environment is that a larger amount of equity investment, as opposed to debt financing, as a percentage of overall purchase price has been required for the transactions that are being completed. This tends to help limit, although not eliminate, the degree of overall purchase price multiple expansion. As activity has gradually picked up, many market participants have been focusing this year on the impact of uninvested capital "overhang" within buyout funds and the potential for upward pressure on future pricing as that cash is put to work in a more aggressive manner. Purchase price multiples have expanded, with companies or sub-industries exhibiting defensive or non-cyclical earnings growth characteristics over the past couple of years generally fetching the most aggressive pricing. We feel comfortable in most cases that the buyout managers in our portfolio have been properly focused on managing their portfolio companies through the downturn, and are exercising cautious skepticism about the pricing environment as they more recently turn their eyes toward new opportunities for investment.

Venture Capital

We view our venture capital portfolio to be a source of very attractive returns in the years to come. As has been discussed in past quarterly letters, performance for the subclass has been lackluster for the better part of the last decade, but we are very encouraged prospectively by a number of factors. Many of the venture-backed companies in our portfolio have continued to grow revenues and earnings in the face of very challenging macro-economic headwinds. Disappointing venture capital performance is not due to a lack of improving fundamentals at the company level, rather it has largely been the lack of an attractive exit market whereby the economic benefit of those improvements can be realized. The exit market has begun to slowly improve, and in instances where portfolio companies have gone public or have been strategically acquired by a larger organization, the impact on performance has been meaningfully positive. We expect this activity to continue, and accelerate, over time.

Portfolio Outlook

The opportunity set for future venture capital investment is as appealing today as it has been in well over a decade. Within the technology sector, significant changes to the source and distribution of advertising content or the growing role of cloud computing help disrupt the existing ecosystem of who does what within the space. These realignments to the status quo allow small, nimble businesses to innovate their way into meeting needs that in some cases did not exist even a year ago. In addition, there continues to be a growing pool of entrepreneurs drawn to the opportunities within life sciences and clean technology despite the seemingly ever-evolving role of government regulation.

The best venture capital returns have historically been concentrated with top tier venture capital funds, and our access to these funds has never been better. The dislocations of the past 24 months have allowed us to selectively upgrade what we already considered to be a very strong portfolio of venture capital managers. We have discussed in recent letters the fact that venture fundraising is down relative to prior years, and that we view this scarcity of capital to be very positive for the industry. This environment makes it that much more important to invest with those managers that back the most creative entrepreneurs and promising companies. We believe our positioning in this regard bodes well for the future.