

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

Industry Update

As we begin a new year, we would first like to thank our clients, for your continuing support during the uncertain times of the last couple of years. Overall, 2010 was a good year as the private equity industry continued to bounce back from the financial crisis and subsequent global recession. Valuations increased steadily across all subclasses throughout the year. In addition, private equity activity increased meaningfully during the year.

Portfolio Statistics as of September 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%	63%	66%	0.98x	1.55%	N/A	-1.11%
2005 Subscription	02/2005	100%	73%	73%	1.00x	2.91%	N/A	-0.67%
2006 Subscription	01/2006	100%	65%	65%	0.91x	-0.32%	N/A	-1.33%
2007 Subscription	01/2007	90%	47%	52%	1.01x	5.19%	N/A	0.33%
2009 Subscription	01/2009	30%	10%	35%	1.07x	35.94%	N/A	14.88%
Direct Co-Investment Fund	09/2006	100%	94%	94%	0.90x	-3.60%	N/A	-4.81%
Co-Investment Fund II	01/2009	100%	24%	24%	1.04x	12.88%	N/A	17.89%
*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. September 30th was not available at print time. The Public Market is the equivalent return achieved by applying Hillingdon's cash flows to the MSCI World Index.								

Main Drivers of Performance

Returns for the venture capital industry have clearly been lacklustre over the last decade. We continue to be optimistic about venture capital for a number of reasons. First, there is much less capital coming into venture these days. The disappointing recent performance has led many limited partners to decrease their allocation to the subclass. To be sure, the best Venture Capitalists are still able to raise their funds easily. Many General Partners ("GPs"), however, are struggling to raise new funds, so there is clearly a shakeout taking place. For new investments there is significant opportunity for technological and business model innovation, and there are a number of breakout companies currently in the portfolio that are ready for exit once the markets are more receptive. Exciting companies such as Facebook, Twitter and Groupon (all portfolio companies) have started to create a buzz around the venture community that has not been present for a number of years. The most obvious impediment to attractive venture returns over the past decade has been a poor exit environment. This is slowly improving as the public markets are beginning to open for sizeable growing companies. We are also seeing an increase in M&A activity although this activity is still not at the levels that some had predicted, given the large amount of cash on corporate balance sheets.

On the buyout side, we have also seen improvement. There is no question that the buyout market was overheated during the 2005-2007 time-period. Many GPs took advantage of accommodating debt markets to make investments at very high prices during this timeframe. The global recessionary environment put many of these deals in jeopardy. The recent resurgence in the debt markets (most notably the high yield market) has allowed these GPs to aggressively refinance, and thus they have been actively chipping away at the 2012-2014 "wall of debt" that was anticipated and written about extensively. Our best guess at this point is that buyout transactions from these vintage years will generate modest returns (high single digits on average). These returns are clearly below our long-term expectations, but are better than we would have predicted a couple of years ago. Overall, we are quite pleased with the way our GPs have responded, making the best of what in some cases could have been very bad situations.

Portfolio Outlook

We believe Adams Street is well positioned to provide our clients with strong returns over the next decade. Our first quarter newsletter will provide more details on a review of the state of the private equity industry. We wish you a healthy and prosperous 2011 and look forward to seeing you in the near future.