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

Industry Update

As the exclamation point on a year of steadily increasing activity, the fourth quarter of 2010 drew to a close with a significant ramp up in capital calls and distributions from our underlying partnerships. While it remains to be seen whether this heightened pace will continue at the same rate throughout 2011, the first few months of activity are notably higher than this time last year. This is most pronounced on the distribution side, with $240 million in distributions received from our general partners (GPs) in January and February of 2011, compared to $95 million for the same period in 2010.

Portfolio Statistics as of December 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**	**96%**	**67%**	**70%**	**1.05x**	**4.54%**	**N/A**	**1.71%**
2005 Subscription	02/2005	100%	77%	77%	1.08x	5.37%	N/A	1.88%
2006 Subscription	01/2006	100%	69%	69%	1.01x	3.51%	N/A	1.63%
2007 Subscription	01/2007	93%	52%	56%	1.10x	9.54%	N/A	3.95%
2009 Subscription	01/2009	36%	15%	41%	1.10x	36.14%	N/A	20.41%
Direct Co-Investment Fund	09/2006	100%	94%	94%	0.94x	-1.64%	N/A	-1.93%
Co-Investment Fund II	01/2009	100%	24%	24%	1.04x	22.09%	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. December 31st 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

The resurgence of the debt markets is one factor driving this trend. Most notably, the leveraged loan and high-yield debt markets have been remarkably robust. After waiting for the dust to settle from the financial crisis, lenders that had generously supplied capital during the 2005-2007 boom have become noticeably more aggressive. GPs are taking advantage of the improving credit environment to step up investing efforts. Buyout activity grew to almost $200 billion during 2010, marking an 84% increase over the depressed levels of 2009. While positive, we are starting to become a bit wary of the fact that in the process there has been an increase in purchase price multiples being paid. Importantly, however, GPs are also using the debt markets to improve the health of their existing portfolio companies through debt refinancing - materially altering the 2012-2014 “wall of debt” that was anticipated. While the refinancings alone have not generated immediate liquidity for investors, the eager debt markets have also allowed managers to complete dividend recapitalizations, something rarely seen since the 2005-2007 timeframe. These recapitalizations have contributed to the growth in distributions, providing much-anticipated liquidity to investors.

In the venture space, improving market conditions and increasing valuations have only begun to translate into investor liquidity. However, there is a level of excitement returning to the industry that hasn’t been present for over a decade. There are a number of significant technology trends, and venture GPs are very well-positioned to be meaningful players in these areas. Further, investors have begun rewarding fundamentally sound and established portfolio companies with higher valuations and more exit opportunities. In the aftermath of the economic slowdown, it has become apparent that many venture-backed companies have emerged stronger, as GPs working with management teams have made improvements to both cost rationalization and revenue growth. To date, venture investments made in the past decade have struggled to produce attractive performance, however, we’re excited about the seeds for future venture returns that the past decade has planted. The companies that were formed and grown during this period are now benefiting from increasing valuations while still privately-held. Across our Direct Funds, the fourth quarter saw mark-ups of 9% in aggregate, with the combined portfolio up 32% for the calendar year 2010. Within our Partnership Funds, valuations for companies such as Facebook, Zynga, Twitter and Groupon have continued to rise. Though the final realizations from these investments have yet to be determined, we’re optimistic that the strong operational performance that many of these companies have generated in recent years is now starting to be reflected in stronger investment performance for our portfolios.

Portfolio Outlook

For more detailed commentary about the State of the Private Equity Industry, as well as a review of our expected future returns for ASP private equity portfolios, please refer to our March 2011 Newsletter. In addition, on Wednesday, May 11 we will be hosting our next Private Equity Discussion Series (PEDS) call. We’re looking forward to having William Macaulay, Chairman and CEO of First Reserve, join us to discuss the energy industry. If you would like to participate, please contact Melissa Lefko at mlefko@adamsstreetpartners.com or (312) 553-8491.