

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

REQUEST FOR ACTION

Approved by the Regents

January 18, 2007

**Subject:** Alternative Asset Commitment

**Action Requested:** Arminius Real Estate Opportunity Fund, L.P.

**Background and Summary:** We recommend a commitment of up to €15 million from the Long Term Portfolio to Arminius Real Estate Opportunity Fund, L.P., a €250 million fund established to make investments in distressed real estate and real estate-related opportunities throughout Germany.

In addition, we recommend approval of up to an additional €10 million commitment to be used for co-investment opportunities which may be offered to the limited partners to the extent that a partnership acquisition exceeds investment limitations. These co-investment opportunities may be at more attractive terms than the Fund investment.


Arminius was founded in 2006 by Peter Jun and Christian Molter who previously managed the German real estate effort for Lone Star, a global private equity fund focused on distressed debt and real estate investments. Jun and Molter have put together a team of experienced real estate professionals, all of whom they have previously worked with at Lone Star. The Frankfurt-based team has a well-established network throughout Germany which they believe will provide attractive deal flow for the fund.

Arminius will invest in real estate opportunities that are either financially or operationally in transition or distress including non-performing and sub-performing mortgage-backed loans, real estate that has been repossessed by the lender and suffering from lack of management, and direct real estate with value-add potential. It is intended that the Fund will target investments across all property types including office, retail and industrial and that have potential for significant upside through active asset management.

Arminius will focus on less competitive smaller transactions that have a high level of complexity. These smaller deals are less likely to be pursued by the large, global real estate private equity funds which typically focus on larger deal sizes, and the complexity limits the appeal to local real estate entrepreneurs who many not have the necessary experience. Average deal size will be €5-15 million and the average hold period will be 1 to 5 years. The General Partner will use conservative underwriting assumptions and targeted returns will not be dependent on a macroeconomic recovery in Germany. Potential exits include buyers of stabilized assets or the German REIT market which emerges in 2007.

An investment with Arminius is consistent with the University's objective to commit to funds where there is potential to add value with an excellent management team and a well-conceived strategy. The German focus of this investment provides further diversification to our real estate portfolio.

Respectfully submitted,



Timothy P. Slottow  
Executive Vice President and  
Chief Financial Officer

January 2007