

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

REQUEST FOR ACTION

Approved by the Regents

March 19, 2009

**Subject:** Absolute Return Investment

**Action Requested:** Approval of Stone Tower Structured Credit Recovery Fund Ltd.

**Background and Summary:** We recommend a commitment of up to \$30 million from the Long Term Portfolio to Stone Tower Structured Credit Recovery Fund Ltd, a fund that makes investments in structured credit products of various asset types, vintages, maturities and capital structure priorities.

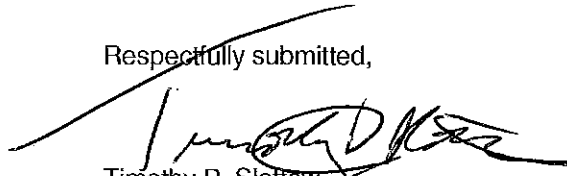
Stone Tower Capital, a New York, NY, based investment advisor was formed in 2001 and manages approximately \$31.5 billion in assets. Stone Tower Capital is a fixed income alternative investments group with specific expertise in senior secured bank loans, high yield bonds, mezzanine debt and structured credit products.

The Fund will invest primarily in a diversified portfolio of various tranches of residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralized loan obligations (CLOs), collateralized debt obligations (CDOs) and other asset-backed securities where market conditions have led to distressed pricing.

The portfolio of investments will be selected by assessing cash flow generation, the timing and probability of principal recovery and the prospect for credit improvement of each individual asset. Risks will be managed through continuous monitoring and evaluation of the security construction as well as through diversification and hedging of market risk.

An investment in Stone Tower Structured Credit Recovery Fund Ltd is consistent with the University's absolute return strategy to invest with experienced managers who have a niche strategy and to opportunistically allocate assets to distressed opportunities when economic conditions are favorable.

Respectfully submitted,



Timothy P. Slotow  
Executive Vice President and  
Chief Financial Officer

March 2009

## Stone Tower Structured Credit Recovery Fund Ltd.

### FUND INFORMATION

<b>Asset Class:</b>	Absolute Return
<b>Sector Focus:</b>	Credit
<b>Regional Focus:</b>	U.S.
<b>Fund Size:</b>	\$150 - \$500 Million

### INVESTMENT STRATEGY

The Fund makes investments in structured credit products of various asset types, vintages, maturities and capital structure priorities.

### TERMS OF OFFERING

<b>Investment Period:</b>	Two years
<b>Investment Manager Commitment:</b>	\$2 Million
<b>Drawdown:</b>	Five days
<b>Distributions:</b>	<ul style="list-style-type: none"><li>(a) Return of Capital – 100 percent until the cumulative distributions equal the capital contributions</li><li>(b) Preferred Return – 8 percent</li><li>(c) Catch-Up to 20% – 100 percent to the Investment Manager until the cumulative distributions to the Investment Manager equals 20 percent of the total amounts distributed</li><li>(d) 80/20 Split – 80 percent to shareholder and 20 percent to Investment Manager</li></ul>
<b>Key Man Provision:</b>	Yes
<b>Management Fee:</b>	Two percent per annum on called capital
<b>Partnership Life:</b>	Five years with two one-year extensions at the discretion of the Investment Manager

### KEY INVESTMENT PROFESSIONALS:

<b>Michael J. Levitt</b>	<b>Chairman, Chief Executive Officer, Co-Founder</b>
	<b>Prior Experience:</b>
	Hicks, Muse, Tate & Furst Incorporated
	Smith Barney, Inc.
	Morgan Stanley & Co., Inc

**W. Anthony Edson**

**Senior Managing Director, Co-Founder**

**Prior Experience:**

Hicks, Muse, Tate & Furst Incorporated  
Morgan Stanley & Co., Inc

**James E. Galowski**

**Senior Managing Director**

**Prior Experience:**

Brightwater Capital Management  
WestLB Asset Management  
Canadian Imperial Bank of Commerce

**Francis J. Hager**

**Senior Managing Director**

**Prior Experience:**

Credit Suisse  
Morgan Stanley & Co., Inc  
Citibank

**Anthony N. Cappetta**

**Senior Portfolio Manager**

**Prior Experience:**

Brightwater Capital Management  
WestLB Asset Management  
Mellon Financial Markets LLC  
Department of Defense

**Prior Performance**

As a new fund, no performance is available