

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Approved by the Regents
May 19, 2011

REQUEST FOR ACTION

Subject: Alternative Asset Commitment

Action Requested: Approval of Canyon-Agassi Charter School Facilities Fund, L.P.

Background and Summary: We recommend a commitment of \$15 million from the Long Term Portfolio to Canyon-Agassi Charter School Facilities Fund, L.P., a domestic real estate fund with an expected capitalization of \$250 million. The Fund will invest in charter school facilities in urban markets across the United States.

Canyon-Agassi Realty Advisors is the General Partner of the Fund and is a joint venture between Canyon Capital Realty Advisors and Agassi Ventures. Canyon Capital Realty Advisors is an affiliate of Canyon Capital Advisors, a Los Angeles-based money management firm founded in 1990. K. Robert Turner leads Canyon's real estate activities. The University is an existing investor with Canyon Capital in the Canyon-Johnson Urban Funds II and III and Canyon Capital Realty Advisors Mortgage Accounts I, II and III. Agassi Ventures is 100% owned by Andre Agassi and is the business entity that acts as the vehicle for all of Agassi's investments. Agassi and the senior members of his team are actively involved and committed to transforming public education for underserved youth in the United States. In 2001, in partnership with the Clark County School District, Agassi opened the Andre Agassi College Preparatory Academy in West Las Vegas, recognized nationally as a model charter school.

The Canyon-Agassi Fund has been established to respond to the significant growth in charter schools and the lack of quality facilities, particularly in the country's urban centers. The Fund will target markets that are densely populated, ethnically diverse, and with a shortage of quality public schools. These markets must have strong charter schools laws, a supply of affordable land or buildings for development or adaptive re-use, multiple strong, successful charter school operators, and strong community support. Prior to selecting a site, the Fund will work with the charter school to assess its needs and to determine an appropriate rent level based upon the school's ability to pay. The Fund and the school will then begin the site selection process focusing on land or excess properties provided by municipalities, districts, banks or individuals at below market value. Additional site criteria for a school include the presence of existing, adjacent amenities such as parks and club facilities. Once a site is identified, but prior to its acquisition, the charter school will enter into 25-30 year lease with the Fund. The lease will include an option for the school to purchase the facility from the Fund during a limited period, typically 2 to 5 years--sufficient time for the school to reach full operations and capacity. When the school exercises its option, Canyon-Agassi will assist in obtaining appropriate financing, including tax exempt financing, to complete the purchase. It is expected that the initial debt service for the school upon purchase will be lower than the rent they have paid to the Fund, thus incentivizing them to complete the purchase and lock in long term facility costs. In the event the school does not proceed with an acquisition of its facility, the Fund has identified other exit strategies for the properties, including sales to real estate investment trusts or individuals.

This investment fits within the University's real estate investment strategy to invest with experienced managers that have demonstrated an ability to add value. In addition, this unique strategy takes advantage of an opportunity that has strong supply/demand characteristics with little competition.

Respectfully submitted,



Timothy R. Slottow
Executive Vice President and
Chief Financial Officer

May 2011