

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION
ITEM FOR INFORMATION

Received by the
Regents
September 18, 2014

Subject: Alternative Asset Commitments

Background and Summary: Under a May 1994 Request for Action, the University may commit to follow-on and add-on investments in a new or existing fund sponsored by a previously approved partnership provided the fund has the same investment strategy and core investment personnel as the prior fund.

Pursuant to that policy, this item reports on the University's follow-on and add-on investments with the previously approved partnerships listed below.

MAP 2003, L.P., a U.S. focused energy fund based in Palo Alto, CA, is a fully invested, high yielding and performing natural gas royalty fund. The fund is invested in oil and gas royalty interests, primarily associated with large, long-life natural gas fields in the continental United States. Royalty interests are structured to generate long-lived cash flow streams and represent a percentage of the gross revenues from the different types of energy production that are paid to the mineral owners. MAP buys the interests from owners and the percentage shares of the revenues are distributed to the partnership and paid out to the investors.

The University made a \$14.5 million investment in MAP 2003, L.P., in October 2013.

Shorenstein Realty Investors Eleven, L.P., a real estate fund sponsored by the San Francisco, CA, based Shorenstein Company, will invest in office buildings and mixed-use projects with a significant office component in major U.S. cities. The Fund will focus on top-quality assets that by virtue of location, physical quality, amenities, tenant base or other outstanding features enjoy leasing advantages in their respective markets. Within this type of asset, Shorenstein targets those situations in which the firm can acquire a property at an attractive price and then add value to the property by applying the firm's operating expertise to correct leasing, operating or physical issues that are impairing values. On a risk-adjusted basis, these types of assets when well-bought and well-managed, present a compelling opportunity to participate in the upside of real estate markets with a significant reduction in downside exposure.

The University committed \$30 million to Shorenstein Realty Investors Eleven, in May 2014.

Apollo Structured Credit Recovery Fund III Ltd., a credit fund based in New York, NY, managed by a team formerly known as Stone Tower Capital, takes advantage of opportunities in the structured credit space. The Fund invests primarily in a diversified portfolio of collateralized loan obligations (CLOs), collateralized debt obligations (CDOs), various tranches of residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and other asset-backed securities where the fund is able to find attractive risk adjusted pricing. The portfolio of investments is selected by assessing cash flow generation, the timing and probability of principal recovery and the prospect for credit improvement in each individual asset.

The University committed \$30 million to the Apollo Structured Credit Recovery Fund III Ltd., in April of 2014.

Orion Mine Finance Fund I-A, L.P., a fund based in New York, NY, that makes structured credit investments in the metal mining industry. The fund targets mid- to late-stage mine financing projects in politically stable regions. Orion focuses on low-cost projects with clear visibility on first production flows. Their investments are highly structured to meet the strategic goals of their investee companies while protecting against loss of capital and providing for the opportunity for equity participation.

The University committed \$20 million to the Orion Mine Finance Fund I-A L.P., in April of 2014.

Shoreline China Value III, L.P., a fund based in Guangzhou, China, that makes distressed and special situations investments in mainland China. Since its formation in 2004, Shoreline has developed a local team with expertise in sourcing attractive opportunities where legal enforcement risk is minimized. In Fund III, Shoreline will utilize this expertise to continue to invest for long-term capital appreciation in non-performing loans, single credit restructurings, structured special situations financings and distressed assets. Their special situations investments are highly structured to meet the strategic goals of their investee companies while protecting against loss of capital and providing for the opportunity for equity participation.

The University committed \$30 million to Shoreline China Value III, L.P., in April of 2014.

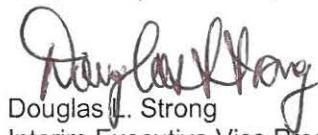
Subject: Absolute Return Investment

Background and Summary: Under a limited delegation granted at the December 2013 Regent's meeting, the Executive Vice President and Chief Financial Officer may approve up to two new investments representing less than 1 percent of the Long Term Portfolio's assets that advanced the portfolio's objectives and met its risk and return objectives. Pursuant to that policy, this item reports on the University's closing of an investment that was approved in February 2014.

Project Ranger is a direct investment in newly formed Bermuda based insurance company, named GreyCastle, established to purchase a portfolio of life insurance policies from XL Group LLC, a publicly traded insurance company based in the United Kingdom. GreyCastle will run-off the portfolio meaning that it will hold the associated portfolio of reserves and liabilities and realize its investment as the underlying insurance policies mature. The company will not underwrite new policies.

The University invested \$69 million in GreyCastle in May of 2014.

Respectfully submitted,


Douglas L. Strong
Interim Executive Vice President and
Chief Financial Officer

September 2014