

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

Subject: Absolute Return

Action Requested: Approval of Baker Brothers Investments

Background and Summary: We recommend the approval of Baker Brothers Life Sciences, L.P., a New York, N.Y. based hedge fund with an initial funding of \$100 million from the Long Term Portfolio.

Baker Brothers is a fundamentally oriented investor in publicly traded and privately held life sciences companies. The firm was founded in 2000 by Julian Baker and Felix Baker, Ph.D. who started working together in 1994 when they co-founded a biotechnology investing partnership with a family office. The firm focuses on understanding the economic implications of the science underlying their target companies, which can lead to a differentiated view of a company's prospects.

The firm invests with a long term view, believing that the market frequently mis-prices the long term value of a drug. Baker Brothers will scale positions over time and concentrate the portfolio in companies where they see the potential for large capital appreciation. In some cases, Baker Brothers will own a significant portion of an investee company.

This investment will diversify the absolute return portfolio and further the University's goal to maximize the long term risk-adjusted return of the Long Term Portfolio.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Kevin P. Hegarty', with several loops and a long horizontal stroke extending to the right.

Kevin P. Hegarty
Executive Vice President and
Chief Financial Officer

September 2016