Received by the Regents
September 20, 2018

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ITEM FOR INFORMATION

Subject: Alternative and Absolute Return Commitments

Background and Summary: Under a May 1994 Request for Action, the University may commit to follow-on investments in a new 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 investments with the previously approved partnerships listed below.

Alternative Asset Commitments

TI Platform Fund II, L.P., a San Francisco, CA, based fund of funds, will invest in emerging venture capital funds. The Fund will invest primarily in new and disruptive venture capital funds, with a smaller allocation to traditional funds, which have limited capacity for new investors. The emerging manager funds will focus on early-stage investments at the pre-seed, seed, or post-seed rounds. The majority of the funds will be domestic, with some limited exposure to global funds.

In April 2018 the University committed $10 million to TI Platform Fund II, L.P.

Turner Healthcare Facilities Fund, L.P., a real estate fund based in Santa Monica, CA, will deliver healthcare facilities to providers in order to address the need for community-serving healthcare infrastructure that can improve health outcomes, improve patient satisfaction, and reduce costs for residents of underserved communities throughout the United States. Turner will develop a broad range of facility types including primary care/urgent care, ambulatory care, transitional care units, and specialty care facilities. The Fund will target markets that lack quality healthcare options for its residents and have large growing and diverse populations. The planned exit is for the healthcare provider to buy the facility from the Fund after a four to five year ramp-up period.

In March 2018 the University committed $50 million to Turner Healthcare Facilities Fund, L.P.

MAP RE 2018, L.P., an income oriented energy fund based in Palo Alto, CA, acquires royalty interests associated with renewable energy projects. MAP's activities are focused on wind and solar power projects in the continental U.S.

MAP invests to create long-term value derived from intrinsically valuable locations for renewable energy projects that cannot be replicated. Projects are executed with expert development partners, actively managed and applied across the entire renewable energy project life-cycle. 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 easement owners, who in many cases are not the same as the owners of the land. MAP buys the interests from owners and the percentage shares of the revenues are distributed to the Partnership and paid out to the investors.

In March 2018 the University committed $30 million to MAP RE 2018, L.P.

PetroCap Partners III, L.P., a Dallas, TX, based natural resources private equity fund, will make control investments in non-operated working interests alongside strong operators in oil and gas projects located on-shore United States. The team will focus on the small end of the market, which they believe is highly fragmented, inefficient, and increasingly undercapitalized. PetroCap will concentrate on the exploitation phase where the operator is expanding production and reserves on a proven property, primarily in conventional plays in mature basins. Typical investment size will range from $5 and $50 million and returns will come from income from oil and gas production and capital appreciation from increased reserves.

In March 2018 the University committed $50 million to PetroCap Partners III, L.P.

SCF IX, L.P., is a Houston, TX, based natural resources fund sponsored by SCF Partners. SCF focuses on investments in the energy services and equipment sectors. SCF targets companies with strong management teams, a history of positive cash flow from operations, and a defendable market and product position. Investments typically consists of a majority stake in a privately held company, but the firm is also willing to invest strategically in non-controlling interests, industry technology, and potentially joint ventures. Exits are achieved through initial public offerings or sales to strategic or financial buyers.

In March 2018 the University committed $17 million to SCF IX, L.P.

Francisco Partners V, L.P., a private equity fund with offices in San Francisco, CA, and London, England, will invest in middle market technology and technology-related companies. The investments generally will be control ownership positions in the communications and security, financial, healthcare, software, and technology-enabled services and systems sectors. The transactions may include buyouts, corporate spin-outs, recapitalizations, restructurings, or growth equity investments, and will usually be in businesses with less than $1 billion in enterprise value and with revenue between $25 million and $200 million. In all investments, Francisco Partners is focused on improving operations and pursuing growth objectives which maximize enterprise value.

In September the University committed $50 million to Francisco Partners V, L.P.

Absolute Return Commitment

RF Investment Partners SBIC I L.P., a New York, NY, and Chicago, IL, based credit fund, will invest in privately negotiated, structured credit instruments in lower-middle-market companies located east of the Rocky Mountains. The fund will invest in cash flowing companies with proven business models, will be senior in the capital structure, and will frequently be the companies' only institutional investor. RF Investment Partners is expected to earn attractive risk-adjusted returns through a combination of cash yield, equity participation, and low-cost Small Business Administration provided leverage.

As previously reported, the University committed $25 million to RF Investment Partners SBIC I L.P. from the Long Term Portfolio in June 2017. In August 2018, the University increased its commitment to this fund to $35.93 million.

Subject: Direct Private Equity Add-On Investment

Background and Summary: Under a limited delegation granted in May 2015, the Executive Vice President and Chief Financial Officer may approve new investments representing less than one percent of the Long Term Portfolio's assets that advance the portfolio's objectives and meet its risk and return targets. Pursuant to that policy, this item reports on the University's closing of an investment that was initially approved in July 2015.

Ardent Health Services is a direct investment in a hospital operating company headquartered in Nashville, TN. The University participated in a consortium to effect the acquisition of the East Texas Medical Center in Tyler, TX, via a joint venture between Ardent Health Services and the University of Texas Health System.

In February 2018 the University invested $30.4 million in Ardent Health Services.

Respectfully submitted,

Kevin P. Hegarty
Executive Vice President and
Chief Financial Officer

September 2018