

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Received by the Regents

October 23, 2008

ITEM FOR INFORMATION

Subject: Alternative Asset 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 energy partnership, real estate partnership, absolute return partnership, and two venture capital partnerships listed below.

ARC Energy Fund VI, L.P., is a Calgary-based energy private equity fund that invests with top entrepreneurs in high growth, early stage companies operating in the exploration and production sector and energy development and services sectors. ARC participates as an active shareholder in the growth of these early stage companies. In addition to equity capital, the team brings significant technical knowledge, industry and operating experience, strong corporate governance principals, strategic and financial expertise and a strong network of industry contacts. The portfolio is expected to be diversified with approximately two-thirds of the companies in the exploration and production sector and the remaining one-third in energy development and services.

This is the University's second investment with ARC Energy. The University committed C\$15 million (~\$15 million) to ARC Energy Fund VI, L.P. in June 2008. The University committed C\$16.4 million (~\$14 million) to a prior ARC sponsored fund.

LBA Realty Fund IV, L.P., a real estate fund based in Newport Beach, CA, will continue the team's strategy to acquire a diversified portfolio of office and industrial properties located primarily in Western United States markets. The fund will target varying risk profiles, including value-added opportunities, select build-to-suit and notes secured by real estate. The fund will maintain a balanced approach to income and growth, with approximately one-half of the returns coming from current income.

This is the University's fourth investment with LBA Realty. The University committed \$20 million to LBA Realty Fund IV, L.P., in July 2008. The University previously committed a total of \$65 million to prior LBA Realty sponsored funds.

Sankaty Credit Opportunities IV, L.P. is an absolute return fund which continues the team's strategy to invest in the credit markets including: bank loans and stressed/distressed debt, mezzanine debt, structured products and special situation investments. Sankaty uses fundamental credit analysis to identify the best opportunities across all four sectors and seeks to minimize downside risk. The team believes that each of the targeted areas will experience windows of attractive risk-adjusted returns. The Fund's flexible structure is designed to adjust the allocations to exploit changing market conditions.

This is the University's fourth investment with Sankaty. The University committed \$40 million to Sankaty Credit Opportunities IV L.P., in June 2008. The University committed a total of \$120 million to prior Sankaty funds.

ATA Ventures III, L.P., a venture capital fund located in Redwood City, CA, will provide seed and early-stage capital to information technology companies. Within the information technology sector, ATA's focus is on the communications industry as it relates to the delivery of voice, video, and data to both businesses and consumers at lower cost and increased performance. Portfolio investments are generally in companies providing core technologies such as semiconductors, optical components, and software.

This is the University's third investment with ATA Ventures. The University committed \$10 million to ATA Ventures III, L.P. in July 2008. The University committed a total of \$15 million to prior ATA funds.

GSR Ventures III, L.P., a venture capital fund located in Beijing, China, will invest in early stage semiconductor, wireless, internet, green technology, and new media service companies based in China. GSR's investment companies are expected to have completed prototype development and have demonstrated significant customer interest, but have little or no revenue. GSR's investment professionals have extensive operating and corporate investing experience at major technology companies in China and/or the U.S. as well as entrepreneurial experience as founders and executives at venture capital funded technology companies.

This is the University's third investment with GSR Ventures. The University committed \$21 million to GSR Ventures III, L.P. in June 2008. The University committed a total of \$20 million to prior GSR funds.

Respectfully submitted,



Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

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