

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

REQUEST FOR ACTION

**Subject:** Alternative Asset Commitment

**Action Requested:** Carnelian Energy Capital

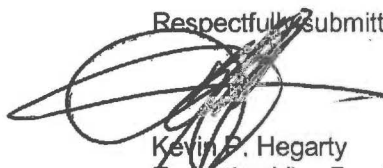
**Background and Summary:** We recommend a commitment of \$30 million from the Long Term Portfolio to Carnelian Energy Capital L.P., a Houston, TX, based natural resources fund that will invest in North American energy focused companies.

Carnelian Energy Capital was formed in 2015 by Tomas Ackerman and Daniel Goodman. The two previously led the Houston office of Natural Gas Partners, an existing natural resources manager for the University. Carnelian currently has a total of eight employees and will continue to build out the team.

Carnelian will make small private equity investments in North American energy companies. The fund will back best-in-class management teams pursuing attractive strategies with an emphasis on the upstream sector and to a lesser extent, midstream and oil field services companies. Average investment size will range from \$25 million to \$75 million, a less competitive segment of the market. Many of the energy focused private equity funds have increased substantially in size and as a result need to focus on deals \$100 million and larger to have a meaningful impact on returns. The fund is expected to be invested primarily in the U. S. with a smaller allocation to Canada and will be diversified across basins, sectors, and management teams. Exits will most likely be to strategic buyers.

This commitment offers the Long Term Portfolio the opportunity to invest alongside an experienced team focused on a less efficient segment of the market.

Respectfully submitted,



Kevin P. Hegarty  
Executive Vice President and  
Chief Financial Officer

October 2015