

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

Subject: Absolute Return

Action Requested: Approval of Sabal Debt Opportunities Fund, L.P.

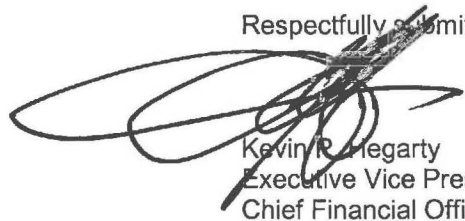
Background and Summary: We recommend a commitment of \$50 million from the Long Term Portfolio to Sabal Debt Opportunities Fund, L.P., a Newport Beach, CA based, small balance commercial real estate loan specialist.

Sabal Debt Opportunities Fund, L.P. will invest primarily in the junior securities of small balance commercial real estate mortgage pools that are comprised of mortgages originated, underwritten and serviced by Sabal related entities. In 2014, Sabal partnered with Freddie Mac to originate and service multi-family commercial real estate loans for securitization in Freddie Mac's new small balance loan program. This program increases mortgage credit availability nationwide to working class, multi-family commercial real estate properties that have less than 30 apartment units. The junior securities of these securitizations provide high total return and income with strong downside protection, which will represent the majority of the fund's investments.

Founded in 2009, Sabal is already highly experienced in the small balance commercial real estate loan sector. Its leaders come from long careers in commercial real estate finance and lending. In addition to its own mortgage activity, Sabal acts as an advisor on commercial real estate loans including prior work with the FDIC to analyze the loan portfolios of over a hundred small and regional banks. To date, Sabal has underwritten and serviced more than \$6 billion in loans.

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,



Kevin R. Hegarty
Executive Vice President and
Chief Financial Officer

October 2016