

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

SSC – SAF I, L.P., a fund sponsored by Spear Street Capital, a San Francisco, CA, based real estate firm, will exploit office investment opportunities that are 250,000 square feet or less in areas with significant technology and media tenants including San Francisco, Silicon Valley, Seattle, Austin, Boston, Chicago, and Los Angeles. Spear Street focuses on properties that include a balance of both current cash flow and capital appreciation. Targeted assets are those with significant leasing risk, concentrated near-term tenant rollover, tenants with credit issues, and existing debt that cannot be extended or replaced. The fund will acquire buildings with competitive advantages that allow for quicker lease-up and better tenant retention. Upon repositioning, the properties most likely will be sold to institutional buyers.

In May 2018 the University committed \$10.0 million to SSC – SAF I, L.P.

Kayne Private Energy Income Fund II, L.P., is a Houston, TX, based natural resources private equity fund sponsored by Kayne Anderson Capital Advisors. The fund will take advantage of increased long-term demand for natural gas driven by persistently low prices and make investments in four to six high-quality management teams that will acquire large, long-life gas assets located on-shore North America. Assets will contain a meaningful percentage of proved developed producing reserves and the remainder in low-risk development upside. Investments will range from \$300 and \$500 million and will be diversified by resource basin. Returns will come from both current income and capital appreciation.

In April 2018 the University committed \$75 million to Kayne Private Energy Income Fund II, L.P.

Grey Rock Energy Fund III, L.P., a Dallas, TX, based natural resources fund, will acquire a diversified portfolio of non-operated working interests in North American oil and gas assets. The fund will target assets that are operated by best in class operators in basins that are economic at today's prices. Grey Rock will focus on smaller transactions, which is a less efficient segment due to the small size. The fund will be diversified in terms of geology, hydrocarbons, and operators.

In April 2018 the University committed \$50 million to Grey Rock Energy Fund III, L.P.

Lime Rock Partners IV AF, L.P., a natural resources fund based in Westport, CT, with offices in Houston, TX, and London, U.K., will invest in Crown Rock Resources, a joint venture between Lime Rock and CrownQuest Operating. In 2006 the University invested in Lime Rock Partners IV, which now is at the end of its fund life. However, there continues to be potential upside in one remaining asset, Crown Rock Resources. The University rolled over its interest in Fund IV and increased its commitment to Fund IV AF by an additional \$25 million. Crown Rock seeks to develop its tier one location wells in the Permian Basin and Rocky Mountain regions of the United States and will opportunistically purchase additional acreage.

In May 2018 the University committed \$26 million to Lime Rock Partners IV AF, L.P.

Absolute Return Commitments

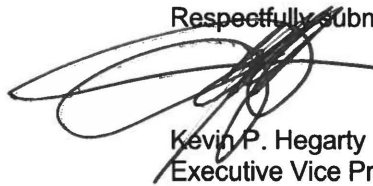
Enlightenment Capital Solutions SBIC Fund, L.P., a Chevy Chase, MD, based credit fund, will invest in privately negotiated, structured credit instruments in lower-middle-market U.S. companies in the aerospace, government and defense sectors. The fund will invest in cash flowing companies with proven business models, will be senior in the capital structure, and will frequently be the companies' only institutional investor. Enlightenment is expected to earn attractive risk-adjusted returns through a combination of cash yield, equity participation, and low-cost SBA provided leverage.

In April 2018 the University committed \$25 million to Enlightenment Capital Solutions SBIC Fund, L.P. from the University's Long Term Portfolio.

Granite State Capital Partners II, LP, a New York, NY, based credit specialist group invests in illiquid corporate bank loans at a discount to par. The primary focus of the fund is on acquiring primarily U.S. non-investment grade loans rated single-B and higher in the secondary market. The loans are at the top of the capital structure, relatively short in duration, and provide attractive risk-adjusted returns to investors. The fund will produce current income and has the potential for capital appreciation.

In April 2018 the University committed \$100 million to Granite State Capital Partners II, LP.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Kevin P. Hegarty', is written over the typed name and title.

Kevin P. Hegarty
Executive Vice President and
Chief Financial Officer

October 2018