

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

Approved by the
Regents
December 18, 2014

Subject: Alternative Asset Commitment

Action Requested: PetroCap Partners II, L.P.

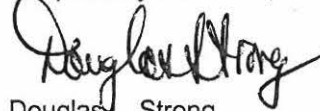
Background and Summary: We recommend a commitment of \$30 million from the Long Term Portfolio to PetroCap Partners II, L.P., a Dallas, TX, based natural resources private equity fund.

PetroCap was founded in 1992 by Dick Rinehart and John Sears to make upstream energy investments, using money from family and friends. In 2007, PetroCap was introduced to Highland Capital, a global credit manager with \$20 billion in AUM. The partners at Highland Capital structured a joint venture with PetroCap as a way to invest personal money in the energy space. Then in 2010, Highland Capital seeded PetroCap's first institutional fund, introduced it to LPs, and provided back office support.

PetroCap 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

This commitment offers the University the opportunity to invest alongside an experienced natural resources team focused on an inefficient sector of the market.

Respectfully submitted,



Douglas L. Strong
Interim Executive Vice President and
Chief Financial Officer

December 2014