

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Approved by the Regents
January 19, 2012

REQUEST FOR ACTION

Subject: Alternative Asset Commitment

Action Requested: Approval of RK Mine Finance Fund II L.P.

Background and Summary: We recommend a commitment of \$25 million from the Long Term Portfolio to RK Mine Finance Fund II L.P., a \$750 million partnership that will make private structured investments in the metal mining industry. RK Mine Finance Fund II is being formed by RK Capital, a leading metals trading concern.

RK Mine Finance will provide late-stage financing to mining companies in politically stable parts of the world. The fund will typically target small to mid-tier companies who have limited alternative sources to fund their capital-intensive projects.

RK Mine Finance will typically structure its investments as a form of debt written against the mine's reserves. This debt is typically senior in nature and over-collateralized. In combination, these attributes protect against loss of capital by providing for recovery in the case of default. The fund will minimize the risk of a drop in metals prices through the futures markets and by targeting projects with a low marginal-cost of production.

RK Mine Finance will, in the majority of its deals, provide for the transportation and sale of the ore mined by its investee companies. This gives the fund evidence of the quantity and quality of mined ore and allows for early intervention should problems arise. In addition, this arrangement provides the fund with security of payment as well as the opportunity to use the disposition process to generate additional returns.

An investment in RK Mine Finance Fund II L.P. is consistent with our energy strategy to invest in private equity partnerships with managers that have demonstrated an ability to add value. The natural resources focus of this fund provides further diversification to our energy portfolio which is concentrated in the oil and gas industry.

Respectfully submitted,



Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

January 2012