

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

EXH	MOTION <i>White</i>
	SEC'D <i>Maynard</i>
	ACTION APPROVED BY THE REGENTS
NOTE:	FEB 17 2005

Subject: Alternative Asset Commitment

Action Requested: Approval of Sovereign Capital Limited Partnership II

Background and Summary: We recommend a commitment of up to £12 million (approximately \$22.6 million) from the Long Term Portfolio to Sovereign Capital Limited Partnership II., a £250 million private equity fund based in London, U.K.

The fund will focus on buyout transactions in service companies in the healthcare, education, and support sectors. Sovereign's approach is to grow companies from within or to buy platform companies and grow them by making add-on acquisitions. Sovereign invests in smaller, U.K.-based businesses.

Sovereign's target companies are frequently owned by families or private entities, where succession issues, protection of a company's brand name and the quality and reputation of the buying company are important considerations in addition to price.

Sovereign is a hands-on investor, recruiting experienced management teams, advising companies on growth and acquisition targets, and providing corporate finance assistance as appropriate. The investment team's goal is to create brand or market leaders that become attractive acquisition candidates for strategic or financial buyers.

Sovereign typically invests £5 million to £20 million of equity per transaction in companies having at least £1 million in net income and a valuation of up to £50 million. Portfolio transactions are structured to make sure excess income is returned to the fund, providing a current yield component to the investment return.

In most cases, Sovereign is the majority owner, giving it strategic and board control, and holds investments an average of five years to maximize earnings growth.

Sovereign Capital Limited Partnership II offers the opportunity to invest with an experienced team having specific sector expertise and implementing a disciplined approach to finding and growing smaller companies into valuable assets. In addition, the lower mid-market sector offers somewhat less-competitive investment opportunities. More highly capitalized private equity buyout funds are unable to pursue smaller transactions such as those in Sovereign's portfolio.

Respectfully submitted,



Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

February 2005