

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

Approved by the Regents  
March 21, 2013

REQUEST FOR ACTION

**Subject:** Alternative Asset Commitments

**Action Requested:** Approval of Two Co-investment Opportunities with Existing Natural Resource Managers

**Background and Summary:** We recommend a \$10 million commitment to Canyon Midstream Partners, LLC, a co-investment opportunity offered by Kayne Anderson Energy Partners and a \$5 million commitment to Modern Resources Inc., a co-investment opportunity offered by ARC Financial Corporation. These commitments will be made from the Long Term Portfolio.

**Canyon Midstream Partners LLC**, is a portfolio company being funded by Kayne Anderson Energy Funds V and VI. The University has been an investor with Kayne Anderson since 2004, committing a total of \$80 million to Energy Funds III through VI. Canyon Midstream Partners is being formed to take advantage of the lack of adequate infrastructure to support oil and gas production across North America. The management team has a long history of working together in the midstream sector and has established relationships and access to attractive deal flow. Canyon will develop new or acquire existing assets including natural gas gathering pipelines and gas processing plants. The portfolio is expected to be diversified both geographically and by customer. The most likely exit is a sale of the portfolio to a strategic buyer, but Canyon could potentially go public through an initial public offering.

**Modern Resources, Inc.**, is a portfolio company being funded by ARC Fund 7. The University has been an investor with ARC since 2006 and has committed approximately C\$50 million to Funds 5, 6 and 7. Modern Resources is a Calgary-based, start-up, private oil and gas company being established to pursue an acquisition strategy focused on Western Canada. Modern intends to capitalize on a low natural gas price environment, weak equity markets and companies with over-levered balance sheets to acquire low risk, high quality assets. The firm will then apply modern technologies to the properties which have been slow to be adopted in Canada. Once Modern is successful in proving up additional oil and gas reserves, the portfolio of assets will most likely be sold to a strategic buyer.

These commitments offer the University the opportunity to co-invest in compelling investments with existing managers. Terms of the co-investments are more attractive than the fund investments including no management fees or carried interest.

Respectfully submitted,



Timothy P. Slotow  
Executive Vice President and  
Chief Financial Officer

March 2013