

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ITEM FOR INFORMATION

Subject: Alternative Asset 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.

Sequoia Capital, a venture capital firm headquartered in Menlo Park, CA, raised two growth funds, **Sequoia Capital U.S. Growth Fund VII, L.P.** and **Sequoia Capital Global Growth Fund II, L.P.**, and one early stage fund, **Sequoia Capital India V, Ltd.**

The U.S. Growth Fund VII will make later stage investments in market leading, high growth companies across a broad spectrum of sectors, including internet/mobile; technology; financial services; and health care services. The investments will be primarily in domestic businesses. The Global Growth Fund II will make growth equity investments in companies in the technology, financial services, healthcare, and consumer sectors. The portfolio companies may be based in the U.S., China, or India. The late stage investment funds complement Sequoia's core business of investing in early stage technology companies.

The India V Fund will invest in early or growth stage companies which take advantage of opportunities created by the large and growing markets in India. The investment team has a specific focus on companies in three fast growing sectors: technology, consumer, and healthcare.

In December 2015 the University committed a total of \$37 million to Sequoia Capital U.S. Growth Fund VII, L.P., Sequoia Capital Global Growth Fund II, L.P., and Sequoia Capital India V, L.P.

Berkshire Fund IX, L.P., a private equity fund based in Boston, MA, will make equity investments in established middle market companies which have attractive growth prospects. Berkshire invests across a number of industries, including consumer products and retail; business services; industrial manufacturing; transportation; and communications. The firm's primary geographic focus is the U.S., but it will pursue investments outside the country on an opportunistic basis.

Berkshire's private company investments may include leveraged buyouts, recapitalizations, growth capital transactions, and corporate carve-out transactions.

In December 2015 the University committed \$50 million to Berkshire Fund IX, L.P.

BioPharma Credit Investments IV, S.à r.l., a private credit fund based in New York, NY, and sponsored by Pharmakon Advisors, L.P., seeks to acquire a diversified portfolio of high-yielding, debt and debt-like securities collateralized with cash flows from leading life sciences products with short average lives and strong underlying credit characteristics.

The need for capital in the life sciences industry allows the fund to invest in short-term debt securities and capped royalties that are collateralized by sales or royalty streams from leading life sciences products with good sales visibility during the expected life of the investments, generally 5 years. A substantial portion of the income derived from the investments is in the form of current interest payments and principal amortization.

In November 2015 the University committed \$25 million to BioPharma Credit Investments IV, S.à r.l.

Kayne Anderson Energy Fund VII, L.P., an energy fund based in Los Angeles, CA, with an office in Houston, TX, will continue the team's strategy of making investments in small and mid-cap oil and gas exploration and production companies and companies servicing those businesses. Kayne Anderson targets high quality management teams on the verge of undertaking significant transactions or projects. The fund's capital will be used by the portfolio companies to increase production levels, cash flows and asset values, to acquire assets, or to fund specific projects. Investment commitments are typically funded over time as Kayne Anderson works with the management teams to implement their business strategies. Investments are expected to be geographically diversified across North America.

In October 2015 the University committed \$30 million to Kayne Anderson Energy Fund VII, L.P.

Moorfield Audley Real Estate Fund/Moorfield Real Estate Fund II Co-Investment. In October 2007 the University committed £15 million to Moorfield Real Estate Fund II, a London, U.K., based real estate fund focused on acquiring United Kingdom assets that need repositioning due to poor asset management, distressed assets being sold by lenders, and surplus properties resulting from reorganizations and consolidations of businesses and funds. Fund II is nearing the end of its life and the only remaining asset is Audley Retirement Villages, a retirement home company acquired by Moorfield in October 2008. As a result of the global financial crisis, the expected growth of Audley stalled as U. K. retirees were unable to sell their homes to move into the Audley retirement villages. The U. K. market has since recovered and to take advantage of pent-up demand and projected growth, Moorfield Audley Real Estate Fund has been formed to acquire Audley Retirement Villages from Fund II. The terms of the co-investment fund are more attractive than Fund II terms.

The University committed £10 million (~\$13.9 million) to this Moorfield sponsored co-investment opportunity.

Respectfully submitted,



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Executive Vice President and
Chief Financial Officer

March 2016