

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ITEM FOR INFORMATION

Subject: Alternative and Absolute Return 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.

Francisco Agility Fund, L.P., a private equity fund with offices in San Francisco, CA, and London, England, will invest in smaller technology and technology-related companies which require \$50 million or less in equity. This fund's strategy will complement that of Francisco Partners' other funds, which invest in larger technology companies requiring more than \$50 million in equity. The investments will cover a range of technology subsectors, including semiconductor, software, technology-enabled services, and internet sectors. The transactions will include both control and minority ownership positions of companies located in the U.S. or Europe. On an opportunistic basis, the fund will invest in businesses based in Israel. In all its investments, Francisco Agility will be focused on improving operations and pursuing growth objectives which maximize enterprise value.

In September 2016 the University committed \$20 million to Francisco Agility Fund, L.P.

Deerfield Private Design Fund IV, L.P., a private equity fund headquartered in New York, NY, will invest in privately structured transactions with public and private healthcare companies to provide them with alternative financing options. Programs the Private Design IV fund might finance include acquisitions, product development and launch, balance sheet strengthening, or a capital raise without equity dilution. The fund may invest in a spectrum of securities, including equity, debt, warrants, royalties, intellectual property, and other asset types. The financing packages are often complex and are aimed to meet a company's financing and associated growth needs using structures a company can manage while protecting the invested capital and generating attractive risk adjusted returns for the Private Design investors.

In November 2016 the University committed \$50 million to Deerfield Private Design Fund IV, L.P.

The Huron Fund V, L.P., a private equity fund based in Detroit, MI, will make control investments in private, lower middle market companies based in the Midwest or Southeast. The investment transactions will include management buyouts of privately-held companies, the acquisition of non-core corporate subsidiaries, recapitalizations of private companies for shareholder liquidity and growth, and family succession transactions. Huron Capital's goal is to identify and acquire fundamentally sound companies, which are operating below their potential. The firm takes an active role with each of its portfolio companies, helping management grow corporate earnings and improve margins through operational improvements, implementation of strategic initiatives, and add-on acquisitions. The fund's investments will cover a range of sectors in which the investment team has prior experience, including consumer products, business services, and industrial manufacturing.

In December 2016 the University committed \$25 million to The Huron Fund V, L.P.

HealthCap VII, L.P., a venture capital fund located in Stockholm, Sweden, will invest in life science and healthcare companies. Investments will involve the commercialization of medical science and innovation with a focus on building companies, which develop therapeutic drugs or medical devices with therapeutic applications. By investing in therapeutic products already in clinical development, where a proof of concept has been achieved or where development risks are fully understood, HealthCap is able to be an early

investor in opportunities which have mid-to-late stage risk profiles. HealthCap expects to make the majority of its investments in Western Europe but will invest selectively in companies located in North America.

In June 2015 the University committed €12.5 million (- \$14 million) to HealthCap VII, L.P. In November 2016 the University increased its commitment to €18 million (- \$19 million)

LBA Realty Fund VI, L.P., a real estate fund based in Newport Beach, CA, will continue the team's strategy to acquire a diversified portfolio of office and industrial properties located primarily in western United States markets. The fund will target varying risk profiles, including value-add opportunities, select build-to-suits, and notes secured by real estate. The fund will maintain a balanced approach to income and growth with approximately one-half of the returns coming from current income.

In November 2016 the University committed \$50 million to LBA Realty Fund VI, L.P.

Respectfully submitted,



Kevin P. Hegarty
Executive Vice President and
Chief Financial Officer

March 2017