

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.

Alternative Asset Commitments

Sterling Value Add Partners III, L.P., a Palm Beach, FL, based firm, will acquire, manage, lease and sell income producing grocery-anchored shopping centers and power retail centers in major markets located across the United States. Sterling will target quality centers in strong locations with solid real estate fundamentals that become available at opportunistic prices, and to a lesser extent, high street retail. The firm will create value by improving occupancy and tenant mix, increasing rents, making property renovations and improvements, and cutting operating costs.

In September 2017 the University committed \$50 million to Sterling Value Add Partners III, L.P.

Moorfield Real Estate Fund IV, L.P., a real estate fund based in London, U.K., will continue the team's strategy to make investments in United Kingdom real estate, targeting properties that require repositioning due to poor asset management, distressed assets being sold by lenders, and surplus properties resulting from reorganizations and consolidations of businesses and funds. Moorfield will invest opportunistically and will consider a wide range of assets including office, retail and mixed use projects, student housing, and hotels. Moorfield's focus on complex and innovative transactions reduces the amount of competition for deals. The portfolio will be diversified both geographically and by property type.

In October 2017 the University committed £25 million (~ \$32 million) to Moorfield Real Estate Fund IV, L.P.

Magna Buckstin Co-Investment LP, In January 2015 the University committed \$30 million to Magna Hotel Fund V, L.P., a Warwick, RI, based real estate fund that focuses on limited service hotels in major urban markets of the United States. Fund V has offered the opportunity to co-invest in two hotels, a Hyatt House in Austin, TX, and a DoubleTree in Atlanta, GA. Both hotels are being acquired at a below market price and present several opportunities for Magna to improve operations and performance. The economics of this co-investment are more attractive than those of Fund V.

In November 2017 the University committed \$4.6 million to the Buckstin co-investment offered by Magna Hotel Fund V.

GSR Ventures VI, L.P. and GSR 2017 Opportunities Fund, L.P., venture capital funds with offices in Beijing, China, and Palo Alto, CA, will make early stage venture capital investments in companies with substantial operations in China. The focus will be on digital companies in e-commerce, financial technology, online advertising/big data, mobile gaming, and education.

In October 2017 the University committed \$28 million to GSR Ventures VI, L.P. and \$15 million to GSR 2017 Opportunities Fund, L.P.

Absolute Return Commitments

Kian Mezzanine Partners II, L.P., a Charlotte, NC, and Atlanta, GA, based credit fund, will invest in privately negotiated, structured credit instruments in lower-middle-market companies located in the Southeastern United States. The fund will invest in cash flowing companies with proven business models, will be senior in the capital structure and will frequently be the companies' only institutional investor. Kian is expected to earn attractive risk-adjusted returns through a combination of cash yield, equity participation, and low-cost SBA provided leverage.

In May 2017, the University committed \$25 million to Kian Mezzanine Partners II, L.P. from the Long Term Portfolio. In March 2018, the University committed \$12 million from the University's Short Term Pool as a follow-on investment to an unleveraged separately managed account managed by Kian Capital Partners, LLC.

RF Investment Partners SBIC I L.P., a New York, NY, and Chicago, IL, based credit fund, will invest in privately negotiated, structured credit instruments in lower-middle-market companies located east of the Rocky Mountains. The fund will invest in cash flowing companies with proven business models, will be senior in the capital structure and will frequently be the companies' only institutional investor. RF Investment Partners is expected to earn attractive risk-adjusted returns through a combination of cash yield, equity participation, and low-cost SBA provided leverage.

In June 2017, the University committed \$25 million to RF Investment Partners SBIC I L.P. from the Long Term Portfolio. In November 2017, the University committed \$12 million from the University's Short Term Pool as a follow-on investment to an unleveraged separately managed account managed by RF Investment Management Company, LLC.

Respectfully submitted,



Kevin P. Hegarty
Executive Vice President and
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