

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Received by the Regents
May 19, 2006

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. This Request also allows for add-on investments to existing funds, provided the add-on investment does not exceed 10% of the original commitment amount.

Pursuant to that policy, this item reports on the University's follow-on investments with the previously approved real estate partnership, energy partnership, two venture capital partnerships, two private equity partnerships, and one absolute return partnership listed below. All except the absolute return partnership are LTP commitments. The absolute return partnership is a UIP commitment.

Crow Holdings Realty Partners IV, L.P., an \$850 million real estate fund located in Dallas, TX, will invest in a diversified portfolio of domestic real estate, including industrial, grocery-anchored and neighborhood retail properties, multi-family housing, office buildings, hotels and land. The fund will include income-oriented investments with modest forecasted appreciation as well as value-added or opportunistic investments where a greater amount of the profit will be derived from capital appreciation. The fund's domestic, multi-sector approach allows the manager to adjust to stages in the market cycle and shift fund investments accordingly to seek the most favorable risk-adjusted returns.

This is the University's fourth investment with Crow Holdings. The University committed \$30 million to Crow Holdings Realty Partners IV in January 2006. In 2003 the University committed \$50 million to Crow Holdings Realty Partners III. In 2000 the University committed \$30 million to Crow Holdings Realty Partners II. In 1998 the University committed \$20 million to Crow Holdings Realty Partners I.

Natural Gas Partners VIII, L.P., a \$1.3 billion energy fund based in Irving, TX with offices in Santa Fe, NM and Greenwich, CT, will make private equity investments in North American energy companies, primarily in the exploitation and production sector, and to a lesser extent, in other energy related areas such as gas marketing or oil field services. NGP's strategy is to make investments using similar financial structures and governing principles as those commonly used by venture capital and buyout firms. NGP emphasizes the growth of portfolio companies through the effective reinvestment of cash flow and management of financial leverage, assisting the company with financial management, and sponsoring the company in the marketplace.

This is the University's fifth investment with Natural Gas Partners. The University committed \$40 million to Natural Gas Partners VIII in November 2005. In 2003 the University committed \$20 million to Natural Gas Partners VII. In 1999 the University committed \$5 million to Natural Gas Partners VI. In 1998 the University committed \$15 million to Natural Gas Partners V and in 1996 the University committed \$10 million to Natural Gas Partners IV. In addition, in 2002 the Board approved an additional \$1 million add-on commitment to Natural Gas Partners VI which became available as a result of a defaulting limited partner.

TPG Biotechnology Partners II, L.P., a \$400 million venture capital fund located in Palo Alto, CA, will invest in early and late stage venture capital companies in the biotechnology, biomedical devices, and life sciences industries, including those companies that focus on drug discovery and development, personalized medicine, medical devices, and pharmaceutical services. The fund's affiliation with Texas Pacific Group, a global private equity firm, facilitates TPG Biotechnology's access to investments on a broad geographic scale. The investment team consists of individuals with deep scientific knowledge and global operating experience.

This is the University's second investment with TPG Biotechnology Partners. The University committed \$20 million to TPG Biotechnology Partners II, L.P. in December 2005. In 2004 the University committed \$7.5 million to TPG Biotechnology Partners, L.P., a 2001 fund that was re-opened to new investors, including the University of Michigan.

TCV VI, L.P., a \$1.4 billion venture capital fund located in Palo Alto, CA, will invest in expansion and late stage technology companies. TCV (Technology Crossover Ventures) employs a crossover investment model which combines venture capital with public market investing. This allows TCV to invest in technology companies when they are private, at the time of their initial public offerings, or subsequently via PIPE (private investment in public equity) or open-market public equity market transactions.

Within technology, TCV's focuses on revenue-generating businesses in the Internet (eCommerce), software, services, infrastructure and communications sectors. TCV typically seeks to be the largest outside investor, with initial investments between \$20 million and \$80 million. These investments provide growth capital, financing for recapitalizations or buyouts, or liquidity for existing shareholders. While TCV generally takes significant minority ownership of its investment companies, it will take control ownership in certain situations.

This is the University's third investment with TCV. The University committed \$35 million to TCV VI, L.P. in November 2005. In 2000 the University committed \$30 million to TCV V, L.P. In 1999 the University committed \$10 million to TCV IV, L.P.

Welsh, Carson, Anderson and Stowe X, L.P., a New York, NY based private equity fund with a \$3.5 billion target capitalization, will invest in two specific industries, information and business services and healthcare. Welsh, Carson, Anderson & Stowe invests across a variety of investment sizes, ranging from start-up investments in platform acquisition companies to investments of greater than \$500 million of equity capital. Transactions are likely to include management buyouts, growth equity financings, public to private transactions, corporate spin outs, financial restructurings, and recapitalizations. Welsh, Carson generally avoids consortium investments with other private equity funds, preferring to hold a majority ownership position to maintain operational and board control of its companies.

This is the University's fifth investment with Welsh, Carson, Anderson & Stowe. The University committed \$25 million to Welsh, Carson, Anderson & Stowe X, L.P. in November 2005. In 2000 the University committed \$20 million to Welsh, Carson, Anderson & Stowe IX, L.P. In 1998 the University committed \$40 million to Welsh, Carson, Anderson & Stowe VIII, L.P. In 1995 the University committed \$15 million to Welsh, Carson, Anderson & Stowe VII, L.P. In 1993 the University committed \$10 million to Welsh, Carson, Anderson & Stowe VI, L.P.

Charterhouse VIII, L.P., a EUR 4.0 billion (~ U.S. \$4.5 billion) private equity fund based in London, U.K., will invest in buyout transactions in Western Europe, with a focus principally on opportunities in the United Kingdom and France. Charterhouse invests in a relatively small number of large transactions. Portfolio companies generally have enterprise values between €400 million and €2.0 billion, and Charterhouse typically invests between €200 million and €450 million per company. The investment holding period is usually three to five years.

Charterhouse's investments focus on mature businesses in predictable industries. While transactions are not be restricted to specific industries, the general partners have experience in sectors such as chemicals, business services, communication transmission towers, and consumer products.

This is the University's second investment with Charterhouse Capital Partners. The University committed EUR 25 million (~ U.S. \$28 million) to Charterhouse Capital Partners VIII, L.P. in February 2006. In 2003 the University committed EUR 20 million (~ U.S. \$22.5 million) to Charterhouse Capital Partners VII, L.P.

PrivatVärde Fund, L.P., a \$350 million distressed fund located in Minneapolis, MN, was established in 2005 to invest in distressed private investment transactions of loans secured by a variety of collateral

including bonds and single-property commercial real estate. This add-on investment opportunity arises out of additional capacity offered by the fund.

Värde Partners employs a disciplined investment philosophy that opportunistically takes advantage of inefficient markets and undervalued investments priced at a discount to their "intrinsic value" or that have good downside protection. Prior to investing, the General Partner determines whether a catalyst exists for value recognition in approximately two to five years. A catalyst can be an event, process or legal entitlement that causes unrecognized value to be realized. Värde Partners seeks to preserve investors' capital by employing risk management techniques and diversified investment programs.

The University committed \$45 million to PrivatVärde Fund, L.P. in 2005, and the additional 10% took the overall commitment to \$49.5 million.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Timothy P. Slottow", written in a cursive style.

Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

May 2006