

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

Withdrawn by the Regents

May 15, 2008

Subject: Alternative Asset Commitment

Action Requested: Hony Capital Fund 2008, L.P.

Background and Summary: We recommend a commitment of up to \$20 million from the Long Term Portfolio to Hony Capital Fund 2008, L.P., a Beijing, China based middle-market private equity fund that will invest in state owned enterprise restructurings and in growth capital opportunities.

Founded in 2003, Hony Capital is sponsored by Legend Holdings, an entity associated with the Chinese Academy of Sciences. The affiliation with Legend allows to Hony Capital to benefit from Legend's resources, reputation, network, and political relationships while Hony maintains discretion over its business operations and investment decisions.

Hony's investment team consists of twenty seven professionals who have a good understanding of and experience investing in the local market. Their backgrounds include operational and financial experience in international and domestic markets.

Hony Capital uses a "top down" method to identify sectors it considers suitable for private equity investments. Based on this approach, Hony's primary focus is on companies in the construction materials, pharmaceuticals, construction machinery, and consumer related areas. Secondary areas of interest include media and entertainment, financial services, and energy and resources.

Hony Capital's state owned enterprise restructuring strategy involves a systematic review of opportunities to find businesses with capable management teams and competitive market advantages. Hony's goal is to increase the financial performance and value of its portfolio companies by changing the ownership structure from state to private ownership as well as by applying company restructuring, financial recapitalization, and managerial and operational improvements. Hony has experience in state owned enterprise buyouts, spinoffs, and acquisition of government stakes in publicly traded state owned enterprises.

In addition to state owned enterprise restructuring transactions, Hony Capital will invest in rapidly growing private companies. Hony is typically a minority shareholder in these companies but exercises oversight and influence on the management team. Hony's focus is on entrepreneurial companies led by founders or teams who have a vision for building their companies into sector leaders but require Hony's capital and its value-added services to improve corporate governance, upgrade management, refine strategic planning, and implement better financial management.

This commitment offers the opportunity to invest with an experienced team dedicated to investing in China-focused growth capital and state owned enterprise restructuring transactions at time of strong economic growth in China and in a period when the Chinese government seeks to exit state owned enterprises.

Respectfully submitted,



Timothy P. Slotow
Executive Vice President and
Chief Financial Officer

May 2008