

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Received by the Regents
May 17, 2012

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 two absolute return and one natural resources partnerships listed below.

GSO Capital Opportunities Fund II, L.P., a mezzanine debt fund located in New York, NY, continues GSO Capital Partners' strategy to make investments in the debt of companies which do not have access to the public debt market. The group employs a rigorous investment process to evaluate all potential opportunities with preservation of principal as a primary goal. The Fund has a focused, disciplined approach to mezzanine investing that includes performing intensive credit work, carefully structuring the transactions, and actively managing the portfolio. The Fund targets businesses with leading market share positions, sustainable barriers to entry, high free cash flow generation, strong asset values that support the investment, and high quality management teams. The Fund strategy is to structure investments in a manner such that the Firm controls negotiations should an issuer violate covenants or need to restructure its balance sheet.

This is the University's third investment with GSO Capital Partners. The University committed \$40 million to **GSO Capital Opportunities Fund II, L.P.**, in December 2011. The University previously funded or committed \$70 million to prior GSO Capital Partners sponsored funds.

Stone Tower Structured Credit Recovery Fund II Ltd., a credit fund based in New York, NY, takes advantage of opportunities in the structured credit space. The Fund invests primarily in a diversified portfolio of collateralized loan obligations (CLOs), collateralized debt obligations (CDOs), various tranches of residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and other asset-backed securities where market conditions have led to distressed pricing. The portfolio of investments is selected by assessing cash flow generation, the timing and probability of principal recovery and the prospect for credit improvement of each individual asset.

This is the University's third investment with Stone Tower Capital. The University committed \$30 million to **Stone Tower Structured Credit Recovery Fund II Ltd.**, in February 2012. The University previously committed \$70 million to prior Stone Tower Capital sponsored funds.

Denham Commodity Partners Fund VI, L.P., a natural resources fund based in Boston, MA with offices in Houston, TX, Short Hills, NJ, Sao Paulo, Brazil, London, England and Singapore, will continue the team's strategy to invest in industries, companies and assets involving energy and commodities. Based on overarching global themes of population growth/global demand and the demand for innovative solutions to energy needs, Denham will focus on the oil and gas industry, metals and mining, and power and renewables. The Fund will make investments globally across all segments of the capital structure and all stages of corporate and asset lifecycle. Once a company is acquired, Denham typically adds value through operational improvements, helping to define and implement strategic business plans, and assisting with capital and financing needs. Exits of the companies are typically through a strategic or financial sale or an initial public offering.

This is the University's second investment Denham Capital. The University committed \$20 million to **Denham Commodity Partners Fund VI, L.P.**, in February 2012. The University previously committed \$20 million to a prior Denham sponsored fund.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Timothy P. Slottow". The signature is written in a cursive style with a large initial "T" and a long horizontal stroke extending to the right.

Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

May 2012