

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**

**Bain Capital Asia IV, L.P.**, an Asia based private equity fund with offices across the continent, will invest in companies, primarily through buyout transactions, headquartered in greater China, Japan, India, Korea, and Australia. Bain's local presence in each market, global platform, and deep sector expertise are differentiating characteristics. The Fund will focus on five industry verticals, consumer, financial and business services, technology, industrial, and healthcare.

In December 2018 the University committed up to \$50 million to Bain Capital Asia IV, L.P

**Primary V, L.P.**, a London, U.K. based private equity fund, will invest in private lower middle market companies headquartered in or having substantial operations in the U.K. Primary acquires businesses either from private owners or from corporations wanting to sell non-core businesses.

As in prior funds, Primary's investment approach is to identify companies which can become sector leading businesses with differentiated products and services, strong brands, and an international business component. The firm prefers complex transactions where there are clear opportunities to create strategic value through professionalization of underperforming or undervalued businesses. Primary's key areas for business improvement include augmenting and complementing existing management teams, upgrading management information systems, and strategically repositioning businesses by introducing new products and customers or completing transformational add-on acquisitions of other companies. Primary's investments will focus on companies in the sectors of consumer goods and services, leisure, business services, technology and software, and industrial products and services.

In January 2019 the University committed up to £30 million to Primary V, L.P.

**Summa Equity II, L.P.**, a Stockholm, Sweden; and Oslo, Norway; based private equity fund will invest in private, lower mid-market companies in the Nordic region. Each partner has a sector specialization, which allows the firm to take a thematic investment approach and facilitates deal sourcing on a proprietary basis. The investment themes of particular interest to Summa include resource scarcity, energy efficiency, healthcare related to changing demographics, and technology enabled businesses.

The fund will focus on buyout transactions in the lower mid-market sector, a relatively inefficient and less competitive market segment. The investments will be in high growth, market-leading companies with resilient business models where demand for their products and services are expected to persist even if there were a general economic slowdown. Portfolio companies will be positioned to grow organically through buy-and-build transactions and by international expansion.

In December 2018 the University committed up to \$50 million to Summa Equity II, L.P.

## **Absolute Return Commitments**

**Abax Asian Structured Private Credit Fund III, L.P.**, is a Hong Kong, China, based direct lending fund whose primary strategy is making loans to small- and medium-sized enterprises that are based in China or have a significant Chinese connection. The Chinese banking system does not address the growth capital needs of small, non-state sponsored businesses well and the traditional providers of this capital, such as hedge funds and Western investment banks, have curtailed their activity following the Global Financial Crisis. Abax Global Capital will continue its strategy to address these companies' financing needs through negotiating highly structured loans that provide protection and attractive risk-adjusted returns through a combination of yield and equity participation.

In November 2018 the University committed \$50 million to Abax Asian Structured Private Credit Fund III, L.P.

**JAM Partners, L.P.**, is a New York, NY based market-neutral hedge fund that focuses on U.S. financial sector stocks. Jacobs Asset Management (JAM) was founded by Sy Jacobs in 1995. Jacobs has been a specialist in the financial sector for more than 30 years and has a deep understanding of the sector and its sub-sectors. This long/short fund focuses on market themes such as changing regulations, and technological disruption and innovation.

In December 2018 the University committed \$60 million to JAM Partners, L.P.

**Napier Park ELM Series III, LLC. and Napier Park Henley Series I, LLC**, are a European private credit funds based in London, U.K., established to provide risk retention capital to European CLO managers. CLO managers create vehicles that invest in bank loans and issues securities of gradated seniority against the resulting loan portfolio. European regulators require that five percent of a CLO structure be retained by the CLO's manager. Many European CLO managers do not have sufficient capital to meet this retention requirement. Napier Park is uniquely positioned to partner with these CLO managers and provide this capital due to its experience in structuring risk retention compliant vehicles and deep understanding of the European CLO market. Napier Park ELM III will provide risk retention to third-party CLO managers. Napier Park Henley Series I will provide risk retention for Napier Park managed CLOs.

In December 2018 the University committed \$50 million to Napier Park ELM Series III, LLC and \$100 million to Napier Park Henley Series I, LLC.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Kevin P. Hegarty', is written over the typed name and title. The signature is stylized and somewhat messy, with a large loop at the beginning and a long horizontal stroke extending to the right.

Kevin P. Hegarty  
Executive Vice President and  
Chief Financial Officer

May 2019