THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Received by the Regents
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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 three real estate partnerships, three private equity partnerships, and one venture capital partnership listed below.

Lubert-Adler Real Estate Fund V, L.P., is a $1.725 billion real estate fund with offices in Philadelphia, New York, and Los Angeles that will continue the firm's strategy to opportunistically acquire properties from disinterested sellers, such as lenders, bankruptcy trustees, or distressed partnerships. They will then partner with knowledgeable and experienced local operators to create economic value through a combination of entrepreneurial redevelopment, redesign, reuse, and aggressive marketing. Their objective is to produce a completed project of institutional quality with a cost basis substantially below that of its competitive set. This lower cost basis provides significant downside protection, as well as greater upside potential.

Lubert-Adler's investment activities are geographically diversified and concentrated predominantly in major metropolitan markets – San Francisco, New York, Los Angeles, Washington, Philadelphia, Seattle and Boston – where exit liquidity is more favorable and barriers to entry are strong.

This is the University's third investment with Lubert-Adler. The University committed $50.0 million to Lubert-Adler Real Estate Fund V, L.P. in January 2006. In 2003 the University committed $25.0 million to Lubert-Adler Real Estate Fund IV and in 2000 the University committed $15.0 million to Lubert-Adler Real Estate Fund III.

Highcross Regional U.K. Partners II, L.P., a £325 million (approximately $600 million) real estate fund headquartered in Newbury, United Kingdom, acquires underperforming office and industrial properties located in regional markets in the United Kingdom, outside of Central London. With capital improvements, intensive management and aggressive tenant re-positioning, Highcross prepares non-institutional-quality investments for eventual sale to institutional buyers over a three to five year time frame. The fund will also do ground-up development where supply and demand conditions support such activity.

This is the University's second investment with Highcross. The University committed £25.0 million (approximately $46.5 million) to Highcross Regional U.K. Partners II in February 2006. In 2003 the University committed £10.0 million to Highcross Regional U.K. Partners, L.P. and in 2004 we increased this commitment by an additional £2.5 million.

HEI Hospitality Fund II, L.P., a $425 million real estate fund based in Norwalk, CT, acquires high-quality, full-service hotels located primarily throughout the United States and to a lesser extent, Canada and the Caribbean Islands. These hotels typically are subject to franchise agreements with leading hotel brands including Westin, Sheraton, Marriott and Hilton. Once acquired, HEI implements its value creation through its owner-operator business model whereby HEI not only owns, but also operates the hotels. In addition to existing hotels, HEI may pursue opportunities to acquire residential real estate assets associated with hotels or otherwise intended for vacation or leisure use, and development opportunities.

This is the University's second investment with HEI Hospitality. The University committed $25 million to HEI Hospitality Fund II, L.P., in January 2006. In May 2004 the University committed $15 million to HEI Hospitality Fund, L.P.

Bain Capital Fund IX, L.P., a $6 billion private equity fund headquartered in Boston, MA, invests in both midsized and large buyout transactions. Depending on economic conditions, Bain executes growth capital, leveraged acquisition, or corporate restructuring transactions. Investments are diversified by sector and include industrial, media, retail, financial services, healthcare, and energy companies. Bain Capital evaluates investment opportunities using a consulting-based due diligence process to analyze a company's financial performance, market growth potential, industry attractiveness and competitive position. Recently Bain Capital expanded its operations into Asia. It is expected that Bain Capital Fund IX will invest selectively in European and Asian transactions initiated by the European and Asian investment teams.

This is the University's fourth investment with Bain Capital private equity. The University committed $40 million to Bain Capital IX, L.P. in March 2006. In 2004 the University committed $30 million to Bain Capital Fund VIII, L.P. In 2000 the University committed $20 million to Bain Capital Fund VII, L.P. In 1998 the University committed $4 million to Bain Capital Fund VI, L.P.

Lotus China Fund II, L.P., a $150 million private equity fund with offices in Shanghai, China, and Tokyo, Japan, provides growth capital to profitable, expanding companies located in China or having substantial business relationships with China. Invested capital is used to introduce modern technology and new management techniques to China-based companies or to help Japanese companies seeking to relocate production to China or looking to sell products in China. The sectors in which Lotus China II will invest are expected to be diversified, but will include those positioned to benefit from China's large consumer market and rapidly growing economy. The investment team will focus on opportunities where Lotus China II has an exclusive relationship with an investment company's management.

This is the University's second investment with Lotus China. In March 2006 the University committed $25 million to Lotus China II. In 2005 the University committed $15 million to Lotus China I, L.P.

Madison Dearborn Capital Partners V, L.P., a $6.5 billion private equity fund located in Chicago, IL, invests in management buyouts, structured transactions, and growth equity investments.

Madison Dearborn's management buyouts typically involve the investment of $50 million to $600 million of equity in the buyout of private or publicly held companies or the acquisition of divisions of larger companies as well as recapitalizations of family owned companies where the sellers retain significant ownership. The structured transactions and growth equity investments provide $50 million to $400 million of equity to mature, cash flow positive companies, to rapidly growing companies needing expansion capital, or to acquisition-oriented companies seeking to pursue acquisitions or mergers.

Madison Dearborn's investments focus on the basic industries, communications, consumer, financial services, and health care sectors.

This is the University's fourth investment with Madison Dearborn private equity. The University committed $30 million to Madison Dearborn Capital Partners V, L.P. in February 2006. In 2000 the University committed $20 million to Madison Dearborn Capital Partners III, L.P. In 1999 the University committed $15 million to Madison Dearborn Capital Partners III, L.P. In 1996 the University committed $5 million to Madison Dearborn Capital Partners II, L.P.

ATA Ventures II, L.P., a $190 million venture capital fund located in Redwood City, CA, provides seed and early-stage capital to information technology companies. Within the information technology sector, ATA's focus is on the communications industry as it relates to the delivery of voice, video, and data to both businesses and consumers at lower cost and increased performance. Portfolio investments are generally in companies providing core technologies such as semiconductors, optical components, and software.

The general partners lead the majority of their investments, serve as board members, and provide active support to their companies. Investments for ATA II are expected to be between $5 million and $10 million per company, resulting in approximately twenty investments over the life of the fund. Target ownership upon exit is approximately twenty percent.

This is the University's second investment with ATA Ventures. In May 2006 the University committed $10 million to ATA Ventures II, L.P. In 2004 the University committed $5 million to ATA Ventures, L.P.

Respectfully submitted,

Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

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