

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Approved by the Regents
September 20, 2012

REQUEST FOR ACTION

Subject: Alternative Asset Commitment

Action Requested: Approval of Shoreline China Value II, L.P.

Background and Summary: We recommend a commitment of \$20 million from the Long Term Portfolio to Shoreline China Value II, L.P., a \$400 million Guangzhou, China based partnership that will make investments in distressed and special situations in mainland China.

The Chinese financial system is in an early stage of development. High levels of government intervention and nascent financial institutions create an environment where, at any given time, different sectors of the economy are over- or under-invested. This generates opportunities for Shoreline as over-investment creates future non-performing loans and under-investment creates a demand for capital.

Since its formation in 2004, Shoreline has developed a local team with expertise in sourcing attractive opportunities where legal enforcement risk is minimized. In Fund II, Shoreline will utilize this expertise to continue to invest for long-term capital appreciation in non-performing loans, single credit restructurings, structured special situations financings and distressed assets.

Legal enforceability is important for the generation of return on distressed and special situations investments. For non-performing loans and distressed assets, Shoreline seeks to understand the political sensitivity of the underlying asset that determines the likelihood of enforceability. For single credit restructurings and structured special situations, Shoreline will structure the collateral for its loans in such a way that collection will not be reliant on legal action.

An investment in Shoreline China Value II, L.P. will geographically diversify the University's exposure to distressed investments and continue the University's policy of opportunistically allocating assets to this strategy when economic conditions are favorable.

Respectfully submitted,



Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

September 2012