

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

Vitruvian Investment Partnership III, L.P., a London, U.K., headquartered private equity fund, will invest in middle market buyouts and growth equity transactions in Northern Europe.

Vitruvian invests in scalable, asset light companies which have good growth characteristics. In particular, Vitruvian is interested in companies where technology, regulation, and internationalization can contribute to a company's long term growth through disruption of existing markets. The investment team categorizes these opportunities as dynamic situations where it believes it can enhance company value through a combination of modified financial structures, operating improvements, and new strategic initiatives.

The investments will focus on companies in sectors which the investment team has prior experience, including technology, consumer services, healthcare, media, business services, and financial services.

In June 2017 the University committed €15 million (~\$ 16.8 million) to Vitruvian Investment Partnership III, L.P.

IDG China Venture Capital Fund V, L.P., a venture capital partnership with six offices in China, will invest in private companies in China. The investments will be in businesses which provide goods and services to the Chinese consumer as well as in companies which offer enterprise customers access to improved cloud computing services and business intelligence applications. Using a research driven approach, IDG China Venture Capital will invest in early stage companies in sectors which its team has prior experience, including financial technology, consumer, internet, media, and enterprise applications. In most cases, the portfolio companies will have differentiating technology components.

In June 2017 the University committed \$20 million to IDG China Venture Capital Fund, L.P.

Carnelian Energy Capital II, L.P., a Houston, TX, based natural resources fund, will invest in North American lower-to-middle market energy companies. Carnelian will make controlling equity investments in oil and gas companies, which includes making investments to provide start-up capital to newly-formed companies. The fund will back best-in-class management teams pursuing attractive strategies with an emphasis on the upstream sector and to a lesser extent midstream and oil field services companies. The fund will be primarily invested in the United States with a smaller allocation to Canada and will be diversified across basins, sectors, and management teams.

In June 2017 the University committed \$30 million to Carnelian Energy Capital II, L.P.

Absolute Return Commitments

OSP Value Fund II, L.P., a Minneapolis, MN, based private credit fund, will purchase small balance commercial and industrial loans. OSP pursues a value strategy in buying what they term "overlooked" loans through privately negotiated transactions. The market for such loans is inefficient and OSP represents a credible counterparty that is able to quickly and effectively underwrite potential targets. OSP

typically purchases loans at a discount to both par and intrinsic value. This provides for equity-like returns and, in combination with experienced underwriting, limits the risk of permanent impairment of capital.

In April 2017 the University committed \$50 million to OSP Value Fund II, L.P.

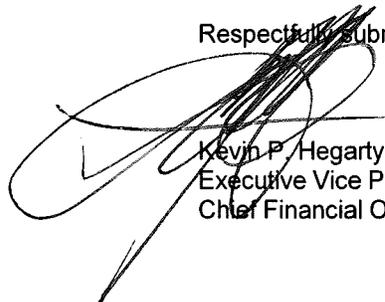
Subject: Direct Private Equity Add-On Investment

Background and Summary: Under a limited delegation granted in May 2015, the Executive Vice President and Chief Financial Officer may approve new investments representing less than one percent of the Long Term Portfolio's assets that advance the portfolio's objectives and meet its risk and return targets. Pursuant to that policy, this item reports on the University's closing of an investment that was initially approved in July 2015.

Ardent Health Services is a direct investment in a hospital operating company headquartered in Nashville, TN. The University participated in a consortium to effect the merger of LHP Hospital Group into Ardent Health Services. LHP was established to provide capital and essential expertise to not-for-profit hospitals and hospitals systems through joint ventures. LHP operates hospitals in Florida, New Jersey, Idaho and Texas. The combination of Ardent and LHP represents the second largest for-profit hospital system in the United States.

In March 2017 the University invested \$45.6 million in Ardent Health Services.

Respectfully submitted,



Kevin P. Hegarty
Executive Vice President and
Chief Financial Officer

October 2017