

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ITEM FOR INFORMATION

EXH	MOTION
	APPROVED BY THE REGENTS
	DEC 15 2005

Subject: Alternative Asset Commitment

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 investment with the previously approved distressed debt partnership described below.

Avenue Special Situations Fund IV, L.P., is a \$1.7 billion distressed debt fund that will continue the team's strategy to make investments primarily in debt, equity securities or other obligations of companies in financial distress. Avenue is raising this fund today in order to take advantage of opportunities in distressed debt investing which they expect will develop sometime in the next one to three years.


Avenue uses a theme-driven, concentrated investment strategy that is analytically intensive and relies upon individual credit, industry and macro research and analysis. Once an investment opportunity is identified, Avenue will seek to identify the most attractive investment within the company's capital structure by determining the most undervalued security relative to fundamental value and investment risk.

Investments may be made in companies in which the General Partner anticipates a turnaround, companies in industries that are in turmoil and companies that are undervalued because of distinct extraordinary events. Avenue IV will focus primarily on U. S. companies but may also invest opportunistically in select European distressed situations.

The University committed \$40 million to Avenue Special Situations Fund IV. This is the University's second investment with the Avenue team. In 2002, the University committed \$30 million to Avenue Special Situations Fund III. This fund is currently in liquidation.

Given the episodic nature of returns from distressed debt investing, the University's strategy is to seek exposure to this asset class on an opportunistic basis by augmenting the exposure it receives through some of the arbitrage funds included in the absolute return category with managers focused on select investments in the securities of distressed companies. An investment with Avenue takes advantage of this latter strategy while controlling for risk by aligning with an experienced distressed debt team.

Respectfully submitted,


Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

December 2005