

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Received by the Regents
December 17, 2010

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 private equity, real estate and energy partnerships listed below.

Longreach Capital Partners 2-USD, L.P., a Hong Kong based private equity fund, will invest in businesses in the technology, industrial, financial services, business services, and consumer related sectors in Japan and other parts of Asia, primarily People's Republic of China, Hong Kong, and Republic of China. These control buyout transactions will focus on companies doing business in Japan or seeking to participate in Japan's increasing economic integration with China and other Asian economies.

Longreach's opportunities include investments in non-core assets of large Japanese corporations that become available as industrial and technology conglomerates reconfigure their business; undermanaged businesses in the financial services sector that are in need of more defined corporate focus, improved asset quality, and better operating efficiencies; and Japanese companies seeking lower-cost offshore manufacturing or looking to sell into the large and growing consumer markets in Asia.

This is the University's second commitment to Longreach. The University committed \$20 million to Longreach Capital Partners 2-USD, L.P. in June 2010. The University committed ¥2.6 billion (approximately \$25 million) to a prior Longreach sponsored fund.

Cypress Realty VII, L.P., a real estate fund based in Austin, Texas, will primarily invest in residential and/or mixed use properties with an emphasis on single-family lot development investments. The fund will focus on markets in the southeast and southwest United States with strong underlying fundamentals including positive job growth, population migration, attractive demographics, an educated workforce and strong housing starts. Their acquisition targets will have purchase prices or development costs substantially below replacement costs.

This is the University third commitment to Cypress. The University committed \$10 million to Cypress Realty VII in September 2010. The University previously committed \$45 million to prior Cypress sponsored funds.

EI Fund V, L.P., is a real estate fund sponsored by Equity International Properties, Ltd. (EIP), a Chicago-based affiliate of Equity Group Investments, the privately-held investment company founded in 1968 by Sam Zell. Fund V will continue the team's strategy to find, create and build large-scale institutional-quality real estate operating companies outside of the United States.

EI Fund V will focus on geographical regions that are characterized by strong economic growth, capital markets inefficiency and limited competition such as Brazil, India, Egypt, and China. In addition, EIP may also consider opportunities in more mature markets in Europe. EIP will create or invest in existing operating businesses with experienced and entrepreneurial local partners, both operating and financial. EIP believes such platform investing often provides strong alignment of interest with the local partners, improved deal flow and scalability, and an opportunity for EIP to use its expertise in working with management teams to build and grow operating companies. In addition, these platforms offer a greater range of exit opportunities as a result of their critical mass, dedicated management and sophisticated financial partners.

This is the University's fourth investment with Equity International Properties, Ltd. The University committed \$25 million to EI Fund V, L.P. in September 2010. The University previously committed \$95 million to prior Equity International sponsored real estate funds.

Yorktown Energy Partners IX, L.P., an energy fund based in New York, will continue the team's strategy to make private equity investments in a broad range of energy companies primarily in the exploration and production, transportation, marketing and other midstream and manufacturing sectors. Criteria for investments include demonstrated cash flow, audited financial statements and significant management ownership. The firm's philosophy is to invest in companies with proven management teams often with prior experience in Yorktown investments and to enhance the value of the investments by working closely with the management teams to build operating cash flows and income. In addition, the Fund will target companies that are market leaders in their sector or that have a specific geographical or geological expertise.

This is the University's seventh investment with Yorktown Partners. The University committed \$15 million to Yorktown Energy Partners IX in September 2010. The University previously committed \$97 million to Yorktown Partners sponsored funds.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Timothy P. Stottow", with a stylized flourish at the end.

Timothy P. Stottow
Executive Vice President and
Chief Financial Officer

December 2010