

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

Blue Water Energy Fund II, L.P., a private equity fund based in London, U.K., will buy and build global companies across the energy supply chain with a focus on midstream, downstream, and upstream services and oil and gas reserves. The fund will concentrate on middle market investments requiring equity of \$50 million to \$150 million. Blue Water intends to diversify its geographic exposure and add value by expanding international operations, adding strategic customers, and rationalizing costs.

In July 2016 the University committed \$50 million to Blue Water Energy Fund II, L.P.

Green Courte Real Estate Partners IV, LLC, a Chicago, IL, based fund will invest primarily in North America in niche sectors including parking, manufactured housing/land lease communities, and senior housing. The fund focuses on niche sectors because they are often defensive in nature, have fragmented ownership, and specialized knowledge is required to acquire, finance, and operate the assets.

In October 2016 the University committed \$30 million to Green Courte Real Estate Partners IV, LLC.

Kayne Anderson Energy Fund VII, L.P., an energy fund based in Los Angeles, CA, with an office in Houston, TX, will continue the team's strategy of making investments in small and mid-cap oil and gas exploration and production companies and companies servicing those businesses. Kayne Anderson targets high quality management teams on the verge of undertaking significant transactions or projects. The fund's capital will be used by the portfolio companies to increase production levels, grow cash flows and asset values, acquire assets, or fund specific projects. Investment commitments are typically funded over time as Kayne Anderson works with the management teams to implement their business strategies. Investments are expected to be geographically diversified across North America.

In October 2015 the University committed \$30 million to Kayne Anderson Energy Fund VII, L.P. In August 2016 the University increased its commitment to \$50 million.

Permira VI, L.P., a private equity fund with main offices in London, U.K., and New York, NY, will invest primarily in mid-to large-cap European buyouts of companies serving both the European markets as well as faster-growing global economies. Permira will opportunistically invest in companies outside Europe and help them develop a presence in the European marketplace. The fund will generally acquire majority or controlling ownership positions. Using a sector-focused approach, Permira invests in technology, healthcare, consumer, industrial, and financial services companies. The firm emphasizes investment value creation through implementation of new business strategies, lower cost structures, improved asset utilization, and management team changes.

In September 2016 the University committed €25 million (~\$28 million) to Permira VI, L.P.

Absolute Return Commitments

Athyrium Opportunities Fund III, L.P., a private equity fund located in New York, NY, will pursue income generating investments in the healthcare sector. The firm's strategy is to make structured debt investments in healthcare companies using the debtor's intellectual property as collateral. The fund's investments will cover a range of healthcare sub-sectors in which the investment team has prior experience such as pharmaceuticals, medical devices, diagnostic products and facilities.

In September 2016 the University committed \$50 million to Athyrium Opportunities Fund III, L.P.

Lone Star Fund X, L.P., a Dallas, TX, based fund that will invest globally in distressed assets. Lone Star invests in distressed residential mortgages, corporate debt and securitized loans. The fund will also target control investments in banks and other financially-oriented companies as well as asset rich operating companies.

In September 2016 the University committed \$50 million to Lone Star Fund X, L.P.

Respectfully submitted,



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Executive Vice President and
Chief Financial Officer

December 2016