

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

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 partnerships listed below.

Absolute Return Commitments

OSP Value Fund III, L.P., a Minneapolis, MN, based private credit fund will purchase small balance commercial and industrial loans. OSP pursues a value strategy in buying loans from motivated sellers through privately negotiated transactions. The market for such loans is inefficient and OSP represents a credible counterparty that is able to underwrite potential transactions quickly. 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 June 2020 the University committed \$40 million to OSP Value Fund III, L.P.

Alternative Asset Commitments

FSN Capital VI, L.P., a private equity fund with offices in Oslo, Norway; Stockholm, Sweden; and Copenhagen, Denmark, will invest in private, midsized companies in the Nordic region. The investments generally will be buyout transactions in which FSN Capital will be the majority owner. FSN Capital plans to help its investee companies achieve organic growth or implement buy-and-build strategies to achieve performance objectives. FSN Capital typically works in coordination with investee company management teams to transform small, local businesses into Nordic leaders. In addition, FSN Capital seeks to encourage global reach for a select number of investee companies. The firm takes a multi-sector approach to its investments and expects to double investee company earnings over the life of the fund's ownership, typically between four and six years.

In June 2020, the University committed €40 million (approximately \$44 million) to FSN Capital VI, L.P.

Summa Equity, a Stockholm, Sweden, and Oslo, Norway, based private equity firm that invests in private, lower mid-market companies in the Nordic region, offered the opportunity to co-invest in a leading Norwegian waste management and recycling company. The team expects to capitalize on the company's strengthening position while implementing additional growth initiatives and operational efficiencies.

In June 2020, the University committed up to an additional \$15 million to Summa Co-Investment (No. 1) AB.

Y Combinator ("YC"), a venture capital firm based in San Francisco, CA, provides funding for startups throughout their lifecycle, starting at their earliest stages. YC funds startups in groups referred to as batches. With the support of YC, including customer introductions, advice, and firm resources, batch companies work on their respective business ideas to position themselves to secure follow-on financing. Each Fund will invest in seed stage, early growth-stage, and selectively in later-stage growth companies. YC expects to invest the majority of the Funds' committed capital to in growth-stage companies. While YC invests across a wide range of sectors, earlier investments have focused on information technology, mobile, and consumer companies. This investment is expected to provide the University with significant exposure to high-quality companies starting at the seed and early-stage that can generate meaningful investment returns as the companies develop.

In June 2020, the University committed \$30 million to two Y Combinator sponsored funds.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kevin P. Hegarty", written over a circular scribble.

Kevin P. Hegarty
Executive Vice President and
Chief Financial Officer

December 2020