

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

ITEM FOR INFORMATION

Received by the Regents  
May 15, 2008

**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 three real estate partnerships and two private equity partnerships for the Long Term Portfolio and one credit partnership for the University Investment Pool listed below.

**EI Fund IV, L.P.**, is a \$500 million 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 IV 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 IV 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 will 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 third investment with Equity International Properties, Ltd. The University committed \$40 million to EI Fund IV, L.P. in February 2008. The University previously committed \$55 million to prior Equity International sponsored real estate funds.

**HEI Hospitality Fund III, L.P.**, a \$500 million real estate fund based in Norwalk, CT, acquires high-quality, full-service hotels located primarily throughout the United States and to a lesser extent, Canada and the Caribbean Islands. These hotels typically are subject to franchise agreements with leading hotel brands including Westin, Sheraton, Marriott and Hilton. Once acquired, HEI implements its value creation through its owner-operator business model whereby HEI not only owns, but also operates the hotels. In addition to existing hotels, HEI may pursue opportunities to acquire residential real estate assets associated with hotels or otherwise intended for vacation or leisure use, and development opportunities.

This is the University's third investment with HEI Hospitality. The University committed \$25 million to HEI Hospitality Fund III, L.P., in February 2008. The University previously committed \$40 million to prior HEI sponsored real estate funds.

**Lubert-Adler Real Estate Fund VI, L.P.**, is a \$2.5 billion real estate fund with offices in Philadelphia, New York, and Los Angeles that will continue the firm's strategy to opportunistically acquire properties from disinterested sellers, such as lenders, bankruptcy trustees, or distressed partnerships. They will then partner with knowledgeable and experienced local operators to create economic value through a combination of entrepreneurial redevelopment, redesign, reuse, and aggressive marketing. Their objective is to produce a completed project of institutional quality with a cost basis substantially below that of its competitive set. This lower cost basis provides significant downside protection, as well as greater upside potential.

Lubert-Adler's investment activities are geographically diversified and concentrated predominantly in major metropolitan markets – San Francisco, New York, Los Angeles, Washington, Philadelphia, Seattle and Boston – where exit liquidity is more favorable and barriers to entry are strong.

This is the University's fourth investment with Lubert-Adler. The University committed \$50 million to Lubert-Adler Real Estate Fund VI, L.P. in February 2008. The University previously committed \$90 million to prior Lubert-Adler sponsored real estate funds.

**Advent International Global Private Equity VI, L.P.**, a private equity fund with offices in Boston, MA and London, U.K., makes later-stage investments in middle market companies in the U.S. and Western Europe. Investment types include control buyouts of private companies or non-core divisions of large corporations, minority or majority recapitalizations, and internal or acquisition-led growth financings. The fund invests in industries in which the investment team has particular expertise, including business services, industrial, financial services, retail, and healthcare services. In all investments, Advent seeks to invest in companies having proven management teams, a leading market position, unexploited market opportunities, and significant growth prospects.

This is the University's fifth investment with Advent International. The University committed \$30 million from its Long Term Portfolio to Advent International Global Private Equity VI, L.P. in March 2008. The University previously committed \$65 million to prior Advent International sponsored private equity funds.

**TPG Partners VI, L.P.**, a private equity fund with offices in Fort Worth, San Francisco, and London, invests in complex buyouts, turnaround, and growth equity transactions. TPG takes a contrarian approach, finding value in companies in out of favor sectors and taking on corporate complexity in the form of regulatory, legal or business issues. The investments cover a broad spectrum of industries in the U.S. and Europe, including technology, healthcare, financial services, consumer product, telecommunications, and transportation.

This is the University's fifth investment in a TPG sponsored private equity fund. The University committed \$30 million from its Long Term Portfolio to TPG Partners VI, L.P. in February 2008. The University previously committed \$110 million to prior TPG sponsored private equity funds.

**OCM European Credit Opportunities Fund L.P.**, a euro-denominated debt fund with offices in London and Los Angeles, invests in bank loans and other senior debt instruments in Western Europe. The debt purchased by the Fund is typically in the form of senior secured debt, second lien debt, syndicated mezzanine transactions and high yield bonds. The Fund geographically expands on the strategy of the North American focused Oaktree Capital Management Loan Fund, in which the University is a participant. Initially raised in 2006, the Fund reopened to take new capital earlier this year when these types of securities were priced at very attractive levels.

This is the University's seventh investment with Oaktree Capital Management. The University committed €25 million from its University Investment Pool to OCM European Credit Opportunities Fund L.P. in February 2008. The University previously committed \$154 million to prior Oaktree Capital Management sponsored funds.

Respectfully submitted,



Timothy P. Slottow  
Executive Vice President and  
Chief Financial Officer

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