

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Received by the Regents
June 19, 2008

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 for the Long Term Portfolio with the previously approved two real estate partnerships and four private equity partnerships listed below.

Cabot Industrial Value Fund III, L.P., a Boston-based real estate fund, invests in industrial properties located primarily in North America, and to a lesser extent, Europe. Cabot focuses on major markets with growing demand and where values are more likely to increase due to limitations on new supply. Cabot creates value through active management and a disciplined sell process. Average transaction size will be \$20 million or less and although it is expected that the majority of the acquisitions will be existing buildings, Cabot may pursue development on a selective basis.

This is the University's third investment with Cabot Properties, Inc. The University committed \$15 million from its Long Term Portfolio to Cabot Industrial Value Fund III, L.P. in March 2008. The University previously committed \$25 million to prior Cabot Properties sponsored real estate funds.

Highcross Regional U.K. Partners III, L.P., a Newbury, U.K., based real estate fund, acquires underperforming, primarily office and industrial, properties located in regional markets of the United Kingdom, outside of central London. Through capital improvements, intensive management and aggressive tenant repositioning, Highcross prepares non-institutional-quality investments for eventual sale to institutional buyers within a three- to five-year investment horizon. The fund will also do ground up development where supply and demand conditions support such activity.

This is the University's third investment with Highcross Strategic Advisors. The University committed £12.5 million in February 2008. The University previously committed £37.5 million to prior Highcross sponsored real estate funds.

Graham Partners III, L.P., a private equity fund located in Newtown Square, PA, invests in industrial companies based principally in the United States and Canada. Graham Partners has a very focused strategy to invest in relatively small, high-growth companies poised to benefit from raw material or product substitution conversions in their markets. Investments are in companies with strong competitive positions as a result of proprietary technology or manufacturing process advantages.

This is the University's third investment with Graham Partners. The University committed \$30 million from its Long Term Portfolio to Graham Partners III, L.P. in February 2008. The University previously committed \$45 million to prior Graham Partners sponsored private equity funds.

CVC European Equity Partners V, L.P., a pan-European private equity fund, invests in management buyouts of mid to large sized companies across Western Europe. In most cases, CVC seeks controlling interest of its investment companies, either directly or in syndication with like-minded private equity firms. CVC, a successor firm to Citicorp Venture Capital Europe, has an established network of twelve offices in major commercial capitals across Europe. The offices are staffed by local professionals who are fully integrated into the banking, legal, and social cultures and practices in the country, enabling them to deal with negotiations and structuring on a local basis when required or on a pan-European basis with colleagues from other offices when a business spans more than one country.

While CVC considers all business sectors and assembles portfolios diversified by industry, the investment team tends to concentrate its investments in construction products, packaging materials, retail, media,

services, chemicals, and manufacturing businesses. The investment strategy is to find businesses that can be built by internal growth or by add-on acquisitions.

This is the University's third investment with CVC. The University committed €15 million from its Long Term Portfolio to CVC European Equity Partners V, L.P. in March 2008. The University previously committed €25 million to prior CVC sponsored private equity funds.

Summit Partners Subordinated Debt Fund IV, L.P., a subordinated debt fund sponsored by Boston, MA and Palo Alto, CA based Summit Partners, will co-invest with Summit Partners Equity Funds in Summit sponsored buyout or recapitalization transactions which involve the use of leverage. Typically these transactions include senior debt, subordinated debt, and equity, with the subordinated debt provided by the Subordinated Debt Fund. Subordinated Debt investments may be structured as unsecured subordinated debt, redeemable preferred securities, or similar interests having a current coupon, together with equity participation rights.

Summit invests in profitable, private emerging growth companies with revenues between \$5 million and \$500 million. The firm's industry focus is broad and includes business services, communications technology and services, financial services, industrial products, software, semiconductors and electronics, and health care services.

This is the University's seventh private equity investment with Summit Partners. The University committed \$10 million from its Long Term Portfolio to Summit Partners Subordinated Debt Fund IV, L.P. in April 2008. The University previously committed \$69.2 million to prior Summit Partners sponsored private equity funds.

Madison Dearborn VI, L.P., a private equity fund located in Chicago, IL, invests in management buyouts, structured transactions, and growth equity investments. Madison Dearborn's investments focus on the buyout of either private or public companies, the acquisition of divisions of larger companies, or the recapitalization of family owned companies where the sellers retain significant ownership. The investments provide capital to mature, cash flow positive companies, to rapidly growing companies needing expansion capital, or to acquisition-oriented companies seeking to pursue acquisitions or mergers.

Madison Dearborn's investments focus on the basic industries, communications, consumer, financial services, and health care sectors.

This is the University's fifth investment with Madison Dearborn private equity. The University committed \$30 million from its Long Term Portfolio to Madison Dearborn Capital Partners VI, L.P. in April 2008. The University has committed a total of \$70 million to prior Madison Dearborn sponsored private equity funds.

Respectfully submitted,



Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

June 2008