

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

ITEM FOR INFORMATION

EXH	MOTION
	SECOND
	ACTION APPROVED BY THE REGI
NOTE:	JUL 21 2005

**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 three previously approved real estate partnerships listed below.

**CP Investment Fund II, L.P.**, a \$400 million real estate fund sponsored by Carmel Partners, a San Francisco-based firm, will acquire multi-family properties that are not widely marketed, are under-managed, or can be repositioned through various strategies. Targeted properties generally will be smaller in size and well-located within their competitive markets. The properties typically will be substantially leased and generate strong current income, but would benefit from improved management and property renovations. Typical investments will be \$15 to \$35 million, a size which generally has broad appeal to both lenders and future buyers.

The Fund will focus on markets that demonstrate favorable prospects for income growth and property appreciation. Each market will be underwritten to verify the depth of end-user demand, potential job growth and the availability of institutional financing. Target markets will generally have high barriers to entry such as limited land availability, entitlement restrictions or rent levels that are insufficient to justify the high cost of new construction. Once properties have been repositioned, potential buyers will include institutional investors and wealthy individuals.

This is the University's second investment with Carmel Partners. The University committed \$20.0 million to CP Investment Fund II, L.P., in April 2005. In 2003 the University committed \$10.0 million to CP Investment Fund I, L.P.

**Rockwood Capital Real Estate Partners Fund VI, L.P.**, a \$500 million real estate fund sponsored by Rockwood Capital, a real estate firm with offices in Greenwich, CT and San Francisco, CA, will acquire a broad mix of office, retail, residential and hotel investments in domestic markets that have a strong constraint on supply combined with expected demand from knowledge-based industries, world trade and business services.

Rockwood uses extensive market research to identify opportunities within property types and across geographic regions. They then develop specific investment strategies to take advantage of these opportunities. Rockwood actively monitors these strategies and periodically reassesses all markets and, by anticipating the market, gains a competitive advantage in acquiring and developing assets and in formulating attractive exit strategies. Rockwood uses its extensive national network of local partners to assist in locating, pursuing, and investing in opportunities, often before they are widely marketed.

Rockwood believes that significant opportunities exist to acquire undervalued or mismanaged real estate assets, or real estate that is under-performing due to inefficient ownership. In addition, the anticipated rise in interest rates combined with the slow recovery of real estate fundamentals will likely create pressure on owners who are not well capitalized to sell, thereby creating opportunities.

This is the University's second investment with Rockwood Capital. The University committed \$20.0 million to Rockwood Capital Real Estate Partners Fund VI, L.P., in May 2005. In 2003 the University committed \$15.0 million to Rockwood Capital Real Estate Partners Fund V, L.P.

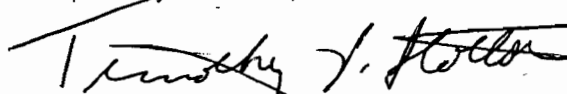
SSC II, L.P., a \$305 million fund sponsored by Spear Street Capital, a San Francisco based real estate firm, will exploit office investment opportunities created by the severe retrenchments in the technology and telecommunication industries in the late 1990s and early 2000s. Target markets include San Francisco, Silicon Valley, Seattle, Bellevue, WA, Northern Virginia, Northern New Jersey, Boston, Cambridge, MA, Denver and Austin.

Spear Street focuses on assets which are out of favor due to significant leasing risk, concentrated near-term tenant rollover, tenants with credit issues, inappropriate capital structures, dysfunctional ownership or located in markets with unusually high vacancy rates. The Fund will target buildings with competitive advantages that allow for quicker lease-up and better tenant retention. Property returns will come from both current cash flow and capital appreciation. Upon repositioning, the properties will most likely be sold to institutional buyers.

This is the University's second investment with Spear Street Capital. The University committed \$25.0 million to SSC II, L.P., in April 2005. In 2002 the University committed \$15.0 million SSC I, L.P.

These investments are consistent with the University's real estate strategy to invest with experienced managers who have demonstrated the ability to add value.

Respectfully submitted,



Timothy P. Slottow  
Executive Vice President and  
Chief Financial Officer

July 2005