

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

Received by the Regents

September 22, 2006

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 real estate partnership, energy partnership, two private equity partnerships, venture capital partnership, and two absolute return partnerships listed below.

**Cypress Realty VI, L.P.**, a real estate fund based in Austin, Texas, invests in a wide range of residential product types including multi-family, senior living, hospitality and large-scale mixed use land developments. Cypress targets opportunities with strong fundamentals including superior site locations, competitive supply constraints, attractive demographics, and positive long-term growth prospects. Cypress creates value through the development, redevelopment or entitlement process while also seeking to mitigate the risks which typically are associated with these types of investments. They often target assets that they can acquire at a discount to their implicit value due to the complexity of the transaction or where barriers to entry limit competition. Cypress likes markets or sub-markets with difficult regulatory requirements where they have developed extensive market knowledge and a thorough understanding of the local real estate environment. Investments are structured to provide for clear and profitable exits within five to seven years.

This is the University's second investment with Cypress Realty Advisors. The University committed \$25 million to Cypress Realty VI, L.P. in June 2006. The University previously committed \$20 million to a prior Cypress fund.

**EnCap Energy Capital Fund VI, L.P.**, an energy fund with offices in Houston and Dallas, will continue the team's strategy to make privately negotiated equity and equity-related investments in independent oil and gas companies operating in the upstream sector of the industry. The fund targets companies with seasoned management teams that have a demonstrated track record of value creation and where proved reserves support the basic investment economics. The fund focuses on investments with underlying assets of oil and gas reserves, gas processing plants, and gas pipelines.

This is the University's fourth investment with EnCap Investments. The University committed \$40 million to EnCap Energy Capital Fund VI, L.P. in April 2006. The University previously committed a total of \$60 million to prior EnCap Energy sponsored funds.

**Permira IV, L.P.**, a private equity fund with offices in Frankfurt, London, Milan, Paris, Madrid, Stockholm, New York, and Tokyo, will invest primarily in European buyout, turnaround, growth equity, and public-to-private transactions. Investments in Japanese and U.S. companies will be on an opportunistic basis and will focus on those businesses with significant operations in Europe. The fund, targeting larger transactions where the enterprise value is at least EUR 500 million (~ U.S. \$640 million), will generally acquire majority or controlling ownership positions. In some situations, such as public-to-private transactions, Permira will take minority ownership stakes. Permira, using a sector-focused approach, invests in technology, healthcare, chemicals, consumer and industrial products, and business services companies. The firm emphasizes investment value creation through implementation of new business strategies, lower cost structures, improved asset utilization, and management team changes.

This is the University's second investment with Permira. The University committed EUR 20 million (~ U.S. \$25.6 million) to Permira IV, L.P. in June 2006. In 2003 The University committed EUR 10 (~ U.S. \$12.5 million) million Permira III, L.P.

**TPG Partners V, L.P.**, a private equity fund with offices in Fort Worth, San Francisco, and London, will invest in complex buyouts, turnaround, and growth equity transactions. Investments will target companies with enterprise

values of at least \$300 million, and TPG will invest between \$50 million and \$750 million per company. For very large transactions, TPG will form consortia with other buyout firms. 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 will 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 second investment in a TPG buyout fund. The University committed \$30 million to TPG Partners V, L.P. in May 2006. In 2003 The University committed \$20 million to TPG Partners IV, L.P. The University has existing investments with TPG Biotechnology Ventures and Newbridge Asia, affiliates of TPG Partners.

**Thomas, McNerney & Partners II, L.P.**, a venture capital fund with offices in New York, San Francisco, and Minneapolis, will invest in healthcare companies, with a focus on the life science and medical technology sectors. The fund will be invested in a portfolio of geographically diversified companies at all stages of development in the biotechnology, medical device, and pharmaceutical sectors. The general partners expect to invest in twenty to twenty-five companies, ranging from start-ups to corporate divestitures, with an average investment size of \$10 million to \$15 million.

This is the University's second investment with Thomas, McNerney & Partners. The University committed \$25 million to Thomas, McNerney & Partners II, L.P. in July 2006. In 2001 the University committed \$15 million to Thomas, McNerney & Partners I, L.P.

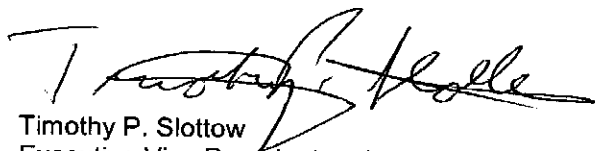
**MHR Institutional Partners III, L.P.**, a \$2 billion distressed debt fund located in New York, NY, will invest in financially distressed middle-market companies in the U.S. The fund is an active investor that seeks to effectuate control or significant influence on its portfolio companies, which the firm believes is essential to preserving and creating value. The fund employs a rigorous, due diligence-focused investment process, capitalizing on its deep industry knowledge and analytical capabilities, to generate attractive risk-adjusted returns across various investing environments in both the debt and equity markets.

This is the University's third investment with MHR. The University committed \$75 million to MHR Institutional Partners III in June 2006. The University has committed a total of \$40 million to two prior MHR sponsored funds.

**Värde Fund VIII, L.P.**, is a distressed debt fund headquartered in Minneapolis, MN. Värde Partners will employ a disciplined investment philosophy that opportunistically will take advantage of inefficient markets and undervalued investments priced at a discount to their "intrinsic value" or that have good downside protection. Prior to investing, the General Partner determines whether a catalyst exists for value recognition. A catalyst can be an event, process or legal entitlement that causes unrecognized value to be realized. The Fund's broad-based investment charter is designed to permit the General Partner to shift the Fund's investment focus as market opportunities change. Värde will seek to preserve investors' capital by employing risk management techniques and diversified investment programs.

This is the University's third investment with Värde Partners. The University committed \$50 million to Värde Fund VIII, L.P. in August 2006. The University previously committed a total of \$79.5 million to prior Värde Partners sponsored funds.

Respectfully submitted,



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