THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ITEM FOR INFORMATION

Received by the Regents
September 20, 2007

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

Avenue Special Situations V, L.P., a $5 billion distressed debt fund located in New York, NY, that will continue the team's strategy to make investments primarily in debt, equity securities or other obligations of companies in financial distress. Avenue uses a theme-driven, concentrated investment strategy that is analytically intensive and relies upon individual credit, industry and macro research and analysis. Once an investment opportunity is identified, Avenue will seek to identify the most attractive investment within the company's capital structure by determining the most undervalued security relative to fundamental value and investment risk.

This is the University's fourth investment with Avenue and third in this strategy. The University committed $40 million to Avenue V in April 2007. Previously, the University committed $40 million to Avenue Special Situations IV in August 2005 and $30 million to Avenue Special Situations III in August 2002. The University has also invested $50 million in Avenue's Asia focused strategy in May 2006.

IDG Accel China II, L.P., a venture capital fund with offices in Beijing and Shanghai, will make early and growth stage investments in technology, media, and consumer sector companies in China. Within the technology and consumer sectors, IDG Accel will focus on companies involved in internet applications, mobile platforms and applications, media, software, and telecommunications. Key drivers of these investments will be the large and growing consumer market in China as well as selected export opportunities. IDG Accel's goal is to acquire significant percent ownership, maintain active board participation, and lead or co-lead each transaction as the sole or first venture capital investor.

This is the University's second commitment to IDG Accel China. The University committed $17.5 million to IDG Accel China Growth Fund II, L.P. in June 2007. The University previously committed $10 million to IDG Accel, L.P. in 2005.

TPG Asia V, L.P., a private equity fund sponsored by TPG (formerly Texas Pacific Group) will invest in companies organized or doing business in Northeast and Southeast Asia as well as in China and India.

In regions such as China and India, which are characterized by high growth and high risk, there will be greater emphasis on equity control investments and low levels of debt. In lower growth, lower risk areas such as Australia, Hong Kong, South Korea, Japan and Taiwan, the investments will more closely resemble traditional leveraged buyouts and include corporate divestitures, bankruptcy and restructurings, and privatizations. TPG Asia tends to seek out complex transactions which require substantial capital. The investment team generally takes an active role in the strategic direction of companies.

This is the University's second investment in a TPG Asia fund. The University committed $35 million to TPG Asia, L.P. in June 2007. (TPG Asia was formerly known as Newbridge Asia.) The University committed $25 million to Newbridge Asia, L.P. in 2005.

Fortress Investment Fund V, is a diversified private equity fund sponsored by Fortress Investments, a global alternative investment and asset management firm headquartered in New York, with offices in Frankfurt, London, Rome, Geneva, San Diego, Toronto and Sydney. The fund invests in cash flowing investments backed by real estate and other tangible and intangible assets that can be acquired at compelling valuations. The team targets sectors where cash flows are being undervalued as a result of complexity, mis-management, financial distress, capital markets dislocation or structural changes to the way assets are owned and operated. The Fund may also invest in companies and sectors that are not under stress but that can be acquired at attractive cash flow yields and recapitalized to achieve significant organic or external growth.

Fortress focuses on investments that offer downside protection in the form of tangible collateral and diversified cash flows combined with significant upside potential from improvements to the operations, capitalization, and growth and strategic development of the underlying businesses. Sectors Fortress has actively invested in include residential and commercial real estate, senior living, financial services, transportation, energy and power, and media/ telecommunications.

Fortress Investment Fund V (Co-investment Funds), is a co-investment fund to make equity investments alongside the main fund. This co-investment fund will allow Fortress to increase its exposure to a company, yet still maintain portfolio diversification in the main fund. The terms of the main fund include a limit of 25 percent in a single transaction, although in reality most investments are expected to represent 10 percent or less of the fund. The co-investment fund has no concentration limits and when fully committed may include only a few investments. The terms for the co-investment fund are similar to the main fund except that management fees are not called until capital is called.

These are the University's third and fourth investments with Fortress. The University committed $20 million to Fortress Investment Fund V in May 2007 and $10 million to Fortress Investment Fund V (Co-investment Funds) in June 2007. In 2006 the University committed $15 million to Fortress-sponsored funds.

Respectfully submitted,

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Executive Vice President and
Chief Financial Officer

September 2007