

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

Approved by the Regents

September 20, 2007

Subject: Absolute Return Investments

Action Requested: Approval of OCM Loan Fund

Background and Summary: We recommend the approval of OCM Loan Fund with a commitment of \$50 million from the University Investment Pool (UIP). The investment would better balance the UIP's risk exposures by decreasing exposure to movements in interest rates and increasing exposures to credit and investment manager value added.

Oaktree Capital Management, the fund manager, was formed in 1995 and focuses on less efficient markets and emphasizes an opportunistic value-oriented approach in niche markets. The University of Michigan has invested in a number of funds managed by Oaktree in areas such as distressed real estate, distressed debt, and emerging markets equities.

The current market environment has created an uncommon opportunity to purchase bank loans and other senior debt instruments at attractive prices. The current credit crunch has in many cases cut off the traditional sources of funds for Wall Street underwriters that finance leveraged buyouts, leaving them to carry bridge loans to private equity funds on their own balance sheets. They now are looking to alternative sources of capital, such as this OCM Loan Fund, and are willing to offer better terms to move these loans. This opportunity is expected to persist for maybe a year as there is a large backlog of deals waiting to be financed.

The Fund has been created to take advantage of this opportunity primarily by purchasing U.S. dollar-denominated bank loans and other senior debt instruments of borrowers that are organized or have a substantial portion of their assets or business in the United States or Canada. The debt to be purchased by the Fund typically will be senior secured obligations of the borrower and will pay interest at a rate that floats or is periodically reset at a margin above a generally recognized base lending rate such as the prime rate, certificate of deposit rates or other base lending rates used by commercial lenders. The Fund may invest up to 20% in a basket of other opportunistic investments, including bridge loans for high yield bond commitments.

The Fund represents an extension of Oaktree's high yield bond strategy and will be managed primarily by the high yield investment group, together with assistance from distressed debt professionals. In selecting and managing the Fund's investments, Oaktree will employ the same credit analysis and valuation skills that have been employed in the management of the high yield and distressed debt portfolios.

Respectfully submitted,



Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

September 2007