

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

Approved by the Regents
September 17, 2009

Subject: Absolute Return Investment

Action Requested: Lone Star Partners VII, L.P.

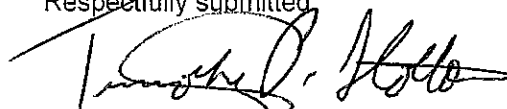
Background and Summary: We recommend a commitment of up to \$20 million from the Long Term Portfolio to Lone Star Partners VII, L.P. a Dallas, TX, based fund that will invest in distressed assets. The investment focus will be on corporate and consumer debt products, banks and asset rich operating companies.

Since the establishment of its first fund in 1995, the principals of Lone Star have organized funds totaling approximately \$24 billion of capital that has been invested globally through Lone Star's worldwide network of affiliate offices. Certain principals have been actively involved in acquiring and managing non-performing loans and forming asset management businesses since late 1980s. The principals and key personnel have expertise in sourcing, securing, pricing, and resolving non-performing secured loans in the prior funds and through strategic alliances.

The Fund will invest in global investments in distressed loans and securities including single family, corporate, and consumer debt products. The Fund also will target global control investments in banks, financially-oriented and asset rich operating companies. The Fund will engage in transactions where Lone Star is the lead investor with control over the execution of the business plan. The Partnership will invest through the acquisition of portfolios of assets and entity-level debt and/or equity and entering into joint ventures, using transaction structures and deal sizes similar to those previously consummated by Lone Star. The anticipated holding period is 2 to 5 years for each investment.

An investment in Lone Star Partners VII, L.P. is consistent with the University's absolute return strategy to invest with experienced managers who have a niche strategy and to opportunistically allocate assets to distressed opportunities when economic conditions are favorable.

Respectfully submitted



Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

September 2009