

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION
REQUEST FOR ACTION

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| EXTENSION | MOTION <i>Brandon</i> |
| | SECOND <i>White</i> |
| | ACTION APPROVED BY THE REGENTS |
| NOTE: | OCT 21 2005 |
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Subject: Absolute Return Investments

Action Requested: Approval of GSO Special Situations Overseas Fund Ltd.

Background and Summary: We recommend an initial funding of \$50 million from the Long Term Portfolio to GSO Special Situations Overseas Fund Ltd., a fund managed by GSO Capital Partners, a New York City-based investment firm.

GSO Capital Partners is a new firm founded by Bennett J. Goodman, Albert Smith III and Douglas Ostrover who have worked together for over 12 years as a leading team in the leveraged finance business, most recently for Credit Suisse First Boston (CSFB) and prior to that at Donaldson, Lufkin & Jenrette. CSFB is exiting this business. GSO Capital Partners essentially encompasses the entire CSFB leveraged finance team, and CSFB will be one of their major investors.

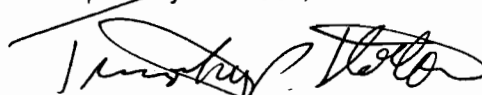
The GSO Special Situations Overseas Fund Ltd. is a \$1.3 billion credit opportunity fund that primarily will invest in the United States and Western Europe. GSO Capital Partners will seek to identify undervalued securities that have been overlooked or are misunderstood by the market. In order to capitalize on event-driven and value opportunities, GSO Capital Partners will develop value-added creative solutions that address a corporation's capital structure requirements.

While the majority of the portfolio is expected to consist of long positions in debt and equity securities, GSO Capital Partners plans to sell securities short and utilize certain hedging techniques when appropriate. GSO Capital Partners will seek to minimize downside risk and protect principal by performing intense credit research and maintaining a diversified portfolio. The fund may invest in both public and private non-investment grade and non-rated securities, including leveraged loans, high-yield bonds, distressed securities, second lien loans, mezzanine securities, equity securities and credit derivatives.

GSO Capital Partners expects that the majority of the assets will be invested in passive positions, although in certain circumstances the General Partner may, on behalf of GSO Capital Partners, seek active participation to ensure preservation or enhancement of GSO Capital Partners' investment position in an issuer.

The addition of GSO Capital Partners provides further management risk diversification in the Absolute Return program, where performance largely is driven by manager specific activities rather than market returns, and enforces the University's absolute return strategy to invest with experienced managers who have a niche strategy and have demonstrated an ability to add value.

Respectfully submitted,



Timothy P. Slotton
Executive Vice President and
Chief Financial Officer

October 2005