

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

REQUEST FOR ACTION

Approved by the Regents

January 18, 2007

**Subject:** Alternative Asset Commitment

**Action Requested:** Approval of CDH China Fund III, L.P.

**Background and Summary:** We recommend a commitment of up to \$20 million to CDH China Fund III, L.P., a Beijing-based private equity partnership which will make investments in private companies with business operations in China. Capital commitments to the fund will be allocated 75% to a main fund and 25% to a supplementary fund. The supplementary fund will invest alongside the main fund when the acquisition cost of an investment exceeds \$75 million and when the main fund invests at least \$75 million in the portfolio investment.

CDH China, formerly part of China International Capital Corporation, became an independent firm in 2002. For over a decade, CDH's founders have built significant China-specific knowledge related to private equity investing across a broad spectrum of industries. Each member of CDH's investment team has significant knowledge and experience in local and international business operations and finance. CDH's professionals have an extensive network of relationships throughout China's entrepreneurial community, including China's business, finance, and government communities, which help the firm source attractive investment opportunities.

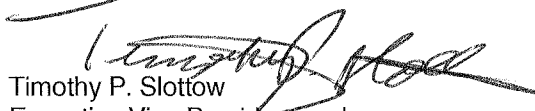
CDH China follows a value-driven investment approach which focuses on investing in expansion, growth capital, and buyout stage opportunities in profitable China-based companies. A differentiating factor for this investment is the diversity of ownership structures of CDH China's target companies, which include state, collective, township, and private ownership entities. Fund III's portfolio is expected to include primarily growth capital and expansion stage companies, with a small number of larger buyout or state-owned enterprise restructuring transactions.

Investments will focus on mature companies, led by local Chinese teams that are selling products or services to the domestic market in China. Industries in which CDH has invested previously and which are likely to offer the prospect of attractive investment opportunities for CDH China Fund III include consumer products, medial, retail and distribution, manufacturing, financial institutions, information technology services and pharmaceuticals.

CDH investment professionals serve on portfolio company boards, working alongside management teams to help them grow their businesses in China and to position them for successful exits via public markets or strategic acquisitions.

This commitment will further diversify the international portion of the University's private equity portfolio and offers the opportunity to invest with an experienced, local Chinese team with the ability to build a diversified portfolio of growth, expansion, and buyout transactions sourced from a variety of corporate structures ranging from state-owned-enterprises to private companies.

Respectfully submitted,

  
Timothy P. Slottow  
Executive Vice President and  
Chief Financial Officer

January 2007