

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

MOTION
SECOND <i>Maynard</i>
APPROVED BY THE REGENTS
NOTE: FEB 17 2005

Subject: U.S. Equity Investment

Action Requested: Approval of Forest Hill

Background and Summary: We recommend the approval of Forest Hill Capital with initial funding of \$40 million.

Forest Hill is a registered investment advisor in Little Rock, Arkansas, with approximately \$250 million in assets under management. It was established in 1999 by Mark Lee, who had headed the private client group at Morgan Keegan, an investment firm headquartered in Memphis, Tennessee. The two senior analysts came from Stephens, a Little Rock, Arkansas, investment bank.

Forest Hill Capital invests in the stocks of small and mid-sized companies based in the southeastern United States. They strive to find underpriced stocks where there is an identifiable catalyst to unlock hidden value. Although the portfolio is dominated by traditional stock purchases, Forest Hill also takes short positions to benefit from decreases in stock prices.

Forest Hill focuses on a universe of companies that lack a research following and that are typically covered only by regional brokers. The firm has developed deep knowledge of the companies and senior management teams in their universe through fundamental research, industry analysis, and an extensive network of regional contacts. They are also sensitive to technical factors relating to the ownership of a stock and how it trades. In a number of cases, they have bought, sold and sold short a single company's stock several times.

This investment will add a smaller fund with a niche strategy to the U.S. equity portfolio.

Respectfully submitted,



Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

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