

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

February 17, 2006

REQUEST FOR ACTION

Subject: Alternative Asset Commitment

Action Requested: Approval of ARC Energy Fund V, L.P.

Background and Summary: We recommend a commitment of C\$13 million (~ US \$11.2 million) from the Long Term Portfolio to ARC Energy Fund V, L.P., a C\$675 million fund established to make energy private equity investments primarily in Canada.

ARC Financial, a Calgary-based, private investment management firm focused exclusively on the energy sector, will be the General Partner of the Fund. Founded in 1989, the firm initially offered oil and gas investment research and corporate finance advisory services, which developed into a highly successfully merger and acquisition business. During the period 1990-1997 ARC advised on more than one-third of all major transactions in the Canadian energy sector. Also in 1990, ARC became an active investor in early stage energy companies. ARC launched its first private equity fund in 1997 and has since exited the third party advisory and research businesses to focus exclusively on private equity funds. This will be the team's fifth fund.

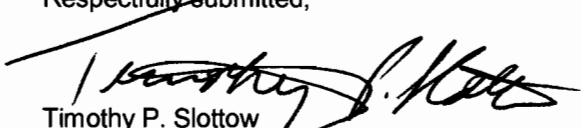
ARC Energy Fund V will continue the firm's strategy to invest with top entrepreneurs in high growth, early stage companies operating in the exploration and production sector and energy development and services sectors. Energy development and services include non-conventional energy areas such as oil sands and heavy oil, unconventional natural gas including coal bed methane and tight sands, power development and oilfield service companies. While it is expected that the investments will be primarily focused on Canadian companies, ARC may also invest in select international opportunities.

ARC participates as an active shareholder in the growth of these early stage companies. In addition to equity capital, the team brings significant technical knowledge, industry and operating experience, strong corporate governance principals, strategic and financial expertise and a strong network of industry contacts.

Typical investment size will be C\$15-\$20 million. The portfolio is expected to be diversified with approximately two-thirds of the companies in the exploration and production sector and the remaining one-third in energy development and services.

An investment in ARC Energy Fund V, L.P., is consistent with the University's energy investment strategy to invest in private equity partnerships with managers that have demonstrated an ability to add value. The Fund's Canadian focus is an attractive complement to the existing portfolio which primarily is concentrated in the United States.

Respectfully submitted,



Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

February 2006