

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

Approved by the Regents
February 15, 2007

Subject: Alternative Asset Commitment

Action Requested: Approval of an Additional Commitment to ARC Energy Fund V, L.P.

Background and Summary: We recommend a commitment of up to an additional C\$10 million (~\$8.5 million) from the Long Term Portfolio to ARC Energy Fund V, L.P., a Calgary based fund established to make energy private equity investments primarily in Canada.

In February 2006 the Board of Regents approved a C\$13 million (~\$11.2 million) commitment to ARC Energy Fund V, L.P., a fund capitalized at C\$675 million. Subsequent to closing the fund, ARC has grown its opportunity set and has identified additional international opportunities which require larger commitment amounts and its pipeline for energy development and services is very active. To permit ARC to take advantage of this increased opportunity set without having to raise a new fund, the general partner plans to increase the fund size by C\$175 million. Limited partners will commit additional capital on a pro-rata basis. The University of Michigan's pro-rata amount is C\$4.25 million. In the event any existing investors do not take their pro-rata allocation, the University may be allocated up to an additional C\$5.75 million, for a total of C\$10 million.

As presented in the February 2006 Request for Action, ARC's focus is 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. 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.

This commitment further diversifies the University's private equity energy portfolio by increasing its Canadian exposure.

Respectfully submitted,



Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

February 2007