

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

REQUEST FOR ACTION

Approved by the Regents

March 17, 2006

**Subject:** Alternative Asset Commitment

**Action Requested:** Approval of Fortress Investment Fund IV

**Background and Summary:** We recommend a commitment of up to \$20 million from the Long Term Portfolio to Fortress Investment Fund IV, a \$3.0 billion fund established to primarily make control-oriented private equity investments in asset-based businesses and asset portfolios in North America and Western Europe. The assets backing the investments are predominantly real estate or real estate-related and this proposed investment will be part of the University's real estate portfolio.

Fortress Investment Group, the General Partner of the Fund, is a global alternative investment and asset management firm founded in 1998 by Wesley Edens, Robert Kauffman and Randal Nardone. Prior to forming Fortress, the principals managed a private equity fund at BlackRock. Headquartered in New York, Fortress also has offices in Frankfurt, London, Rome, Geneva, San Diego, Toronto and Sydney. Since its founding, the firm has invested approximately \$4.6 billion of private equity capital in 43 different transactions. This will be the fourth diversified private equity fund for the firm.

Fund IV will continue the General Partner's strategy to invest in cash flowing investments backed by real estate and other tangible and intangible assets that can be acquired at compelling valuations. The team will target sectors where cash flows are being undervalued as a result of complexity, mis-management, financial distress, capital markets dislocation or structural changes to the way assets are owned and operated. The Fund may also invest in companies and sectors that are not under stress but that can be acquired at attractive cash flow yields and recapitalized to achieve significant organic or external growth.

Fortress will focus on investments that offer downside protection in the form of tangible collateral and diversified cash flows combined with significant upside potential from improvements to the operations, capitalization, and growth and strategic development of the underlying businesses. Sectors Fortress has actively invested in include residential and commercial real estate, senior living, financial services, transportation, energy and power, and media/ telecommunications.

Currently the University's real estate portfolio is invested primarily with managers that make direct investments in properties. An investment with Fortress provides diversification by increasing exposure to asset based companies and portfolios. In addition, this investment is consistent with the University's real estate strategy to invest with experienced managers who have demonstrated an ability to add value.

Respectfully submitted,



Timothy P. Slotow  
Executive Vice President and  
Chief Financial Officer

March 2006