

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

Approved by the Regents  
May 17, 2007

REQUEST FOR ACTION

**Subject:** Charitable Remainder Trusts

**Action Requested:** Approval of Kayne Anderson MLP Investment Company Closed-end Fund  
Approval of Morgan Stanley Global Real Estate Mutual Fund

**Background and Summary:**

The University had 130 Charitable Remainder Trusts (CRTs) with a total market value of \$76 million at March 31, 2007. CRTs are gifts in trust that provide lifetime income to one or more beneficiaries and then benefit University programs of the donors' choice when the trusts terminate. Currently, the University's trusts are invested in mutual funds, which is the traditional approach chosen by Michigan and many other universities for investing their CRTs.

The University recently received private letter rulings from the IRS that will allow investment of CRTs alongside the University's endowment funds in the Long Term Portfolio. The private letter rulings clarify the tax situation of the CRTs and remove potential adverse unrelated business income tax consequences of investing in the Long Term Portfolio.

The University will now be able to offer an investment option for CRTs that reflects the performance of the Long Term Portfolio. In addition, the University will simplify the investment options for CRTs that are not eligible or do not wish to participate in the Long Term Portfolio by reducing such options from five models to three models, each tailored to address typical donor needs, and by realigning the underlying investment vehicles to further diversify the models and enhance the risk/return profile of each.

Regental approval is required to hire a new investment manager or to employ new investment funds in University managed trusts. We recommend including two additional funds, one with a focus on energy infrastructure and one focused on global real estate to be used as part of the diversified asset allocation in each of the three investment options that will be offered for CRTs when the LTP related option is not the best choice. These two funds, which are described below, will be used in addition to already approved Vanguard and Dreyfus Family of mutual funds.

**Kayne Anderson MLP Investment Company** is a closed-end energy-related fund advised by Kayne Anderson Capital Advisors, L.P. Founded in 1984, Kayne Anderson Capital Advisors, L.P. manages approximately \$7.2 billion in alternative assets and has invested in Master Limited Partnerships (MLPs) since 1998. The firm currently is a manager in the University's Long Term Portfolio where it manages two energy-focused private equity funds and one absolute return strategy which includes MLPs.

Kayne Anderson MLP Investment Company is a non-diversified, closed-end, publicly traded investment company. The company's investment objective is to obtain a high after-tax total return by investing in energy-related master limited partnerships, their affiliates and other companies which engage in gathering, transporting, processing, storing, refining, distributing, or marketing natural gas, natural gas liquids, crude oil, refined petroleum products or coal.

The fund offers attractive yields, predictable cash flows, and access to private equity transactions, and will enhance the diversification because of the low correlation of MLPs to fixed income and equities.

We recommend Kayne Anderson MLP Investment Company as an investment vehicle for the University, including University managed trusts.

**Morgan Stanley Institutional Global Real Estate** mutual fund is managed by Morgan Stanley Investment Management's global real estate securities team. The team has been managing global real estate investments together since 1998 and has offices in New York, Amsterdam, and Singapore. The team oversees approximately \$24 billion of assets across several products including mutual funds.


Morgan Stanley Institutional Global Real Estate mutual fund seeks to provide current income and capital appreciation by investing in equity securities of companies in the real estate industry, including real estate investment trusts and real estate operating companies located the major markets around the world.

The fund has an actively managed value-based strategy that provides broad global exposure to a variety of property sectors by investing across three regions: the United States, Europe, and Asia. The investment process combines top-down regional/country and sector allocation with disciplined bottom-up quantitative analysis and fundamental research that focuses on net asset value. Risk control measures with sector, security, country limits, and established buy and sell criteria are also employed. The approach produces a diversified real estate portfolio with over 100 securities.

The global real estate fund with its low correlation to stocks and bonds will complement the current allocation and provide further diversification to the overall program.

We recommend Morgan Stanley Institutional Global Real Estate mutual fund as an investment vehicle for the University, including University managed trusts.

Respectfully submitted,



Timothy P. Slottow  
Executive Vice President and  
Chief Financial Officer

May 2007