

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Approved by the Regents

June 19, 2008

REQUEST FOR ACTION

Subject: Absolute Return Investment

Action Requested: Selene Residential Mortgage Opportunity Fund L.P.


Background and Summary: We recommend a commitment of up to \$75 million from the Long Term Portfolio to Selene Residential Mortgage Opportunity Fund L.P. The Fund focuses on dislocations and opportunities in the residential mortgage market.

The Fund was established as a result of current dislocations across financial markets by a group of senior investment professionals with more than 30 years experience in managing large-scale residential mortgages and the associated mortgage servicing operations. The group is headquartered in New York and has servicing offices in Houston, TX and Horsham, PA.

The Fund will acquire at attractive prices, modify, and service residential mortgage loans in US, primarily through the purchase of whole loans and secondary pools of residential mortgage loans that are sub-performing and non-performing. The Fund intends to increase the value of their loan portfolio through active management, special servicing and loan modifications and receive income from the performing loans. The loans will be acquired from bank, thrifts, non-bank mortgage lenders, government sponsored agencies, mortgage issuers and servicers at an appropriate discount to the current balances. These discounts are sufficient to compensate the fund, allow adjustment of the debt-to-income and loan-to value levels for many mortgages, and provide sufficient flexibility to modify the loans so that borrowers can stay in their homes and the loans to become performing again. The re-performing mortgage loans will be seasoned over a period of about 12 months and will be sold to government sponsored entities or investors as whole loans or loan portfolios. Pools for the re-performing mortgages may also be securitized.

An investment in Selene Residential Mortgage Opportunity Fund L.P. is consistent with the University's absolute return strategy to invest with experienced managers who have a niche strategy and to opportunistically allocate assets to distressed opportunities when economic conditions are favorable.

Respectfully submitted,



Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

June 2008