

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

REQUEST FOR ACTION

GAIN EXH ACTION	MOTION <i>Brandon</i>
	SECOND <i>Taylor</i>
	ACTION APPROVED BY THE REGENTS
NOTE:	JUL 21 2005

**Subject:** Absolute Return Investment

**Action Requested:** Approval of PrivatVärde Fund, L. P.

**Background and Summary:** We recommend the approval of PrivatVärde Fund, L. P. with a commitment of \$45 million for the University Investment Pool (UIP). The investment would better balance the UIP's risk exposures by decreasing exposure to movements in interest rates and increasing exposures to credit, real estate and investment manager value added.

**PrivatVärde Fund** will invest in distressed private investment transactions of loans secured by a variety of collateral including bonds and single-property commercial real estate.

Founded in 1993, Värde Partners is a small Minneapolis based investment firm focused exclusively on distressed investing. The University is also an investor in one of Värde Partners' distressed debt funds.

Värde Partners will employ a disciplined investment philosophy that opportunistically will take advantage of inefficient markets and undervalued investments priced at a discount to their "intrinsic value" or that have good downside protection. Prior to investing, the General Partner determines whether a catalyst exists for value recognition in approximately two to five years. A catalyst can be an event, process or legal entitlement that causes unrecognized value to be realized. Värde Partners seeks to preserve investors' capital by employing risk management techniques and diversified investment programs.

The Fund's broad-based investment approach is designed to permit the General Partner to shift the Fund's investment focus as market opportunities change. Investments will include small balance loan portfolios consisting of consumer and commercial assets with loan balances typically below \$250,000; commercial and industrial loans with a focus on single assets and portfolios of non-performing and sub-performing loans of financially troubled middle-market companies; collateral backed transactions including aircraft and energy related investments, commercial lease obligations and asset backed securities; commercial real estate loans including land acquisition and development loans as well as real estate construction facilities. It is expected that as much as one-third of the fund will be invested in non-US situations.

Respectfully submitted,



Timothy P. Sloglow  
Executive Vice President and  
Chief Financial Officer

July 2005