

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

Approved by the Regents
July 17, 2008

Subject: Absolute Return Investment

Action Requested: Approval of SPO Partners II, L.P.

Background and Summary: We recommend a commitment of up to \$75 million from the Long Term Portfolio to SPO Partners II, L.P., a fund that makes investments in both public securities and private equity transactions in businesses selling at substantial discounts to their intrinsic value.

SPO Partners was formed in 1991 by John Scully, William Patterson and William Oberndorf to continue the team's strategy of value-based investing in both public securities and private transactions that the three had been doing for over two decades, primarily on behalf of high net worth families. In December 2001 the firm created SPO Partners II, L.P., a very long term fund that periodically raises new capital when market conditions are attractive.

SPO's investment objective is to make value-oriented investments in high quality businesses that are selling at meaningful discounts to their intrinsic value or the replacement cost of the firm's assets. The team combines this value-based philosophy with an orientation toward acquiring concentrated positions in businesses that have proprietary franchise characteristics, sustainable competitive advantages and owner-oriented managements. Such businesses tend to have some or all of the following attributes: dominate market share; barriers to market entry; strong free cash flow generation; and high returns on invested capital.

The majority of the firm's investment ideas are proprietary, and investments are made with the goal of SPO being a long term owner. SPO typically becomes involved with the management team at critical periods of a company's growth. When target valuations are reached, investments are divested, often through the public markets or through an outright sale or merger of the business.

An investment with SPO Partners is consistent with the University's absolute return strategy to invest with experienced managers that have demonstrated the ability to add value.

Respectfully submitted,


Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

July 2008