

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

REQUEST FOR ACTION

Approved by the Regents

September 22, 2006

**Subject:** Alternative Asset Commitment

**Action Requested:** Approval of Sentient Global Resources Fund II, L.P.

**Background and Summary:** We recommend a commitment of \$20 million from the Long Term Portfolio to Sentient Global Resources Fund II, L.P., a partnership which will make private equity investments in the metals, minerals and energy related natural resources industries. The Sentient Group is headquartered in the Cayman Islands, with offices in Sydney, Australia and Montreal, Canada. The firm was founded in 2000 by Peter Cassidy, Mark Jackson, Ian Hume, and Colin Maclean, who were previously with the private capital division of AMP Life, an Australian life insurance company.

The fund will continue the team's strategy to make either direct investments in hard assets including metals, minerals, oil, gas or coal, or take strategic positions in the parent company to the underlying asset. Sentient then implements its buy and build investment style that releases the development premium of a resource as it evolves from being an asset in the ground to a cash flow business. The development premium is the amount by which the present value of realized, sustainable cash flow from a resources business exceeds the cost of developing the business. Value is captured through various exit options including an initial public offering, a sale to the operating partner or a sale to a strategic partner.

Sentient originates its deal flow principally through its international network of industry contacts. In addition, Sentient also has developed extensive research capabilities where it has been successful in identifying and then exploiting asset pricing inefficiencies. Sentient is known as a sophisticated financial buyer and is considered an attractive partner for natural resources industry participants.

The portfolio is expected to be diversified by type of asset, location of the investment and the stage of development. While the most attractive investment environments on a risk-adjusted basis continue to be the countries with established natural resources industries and infrastructure, such as Australia, North America, South America and southern Asia, the new regions that have increasing political and economic stability, such as northern Asia, will be increasingly attractive for new investment.

An investment in Sentient Global Resource Fund II, L.P., is consistent with our energy strategy to invest in private equity partnerships with managers that have demonstrated an ability to add value. The natural resources focus of this fund provides further diversification to our energy portfolio which is concentrated in the oil and gas industry.

Respectfully submitted,



Timothy P. Slottow  
Executive Vice President and  
Chief Financial Officer

September 2006