

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ITEM FOR INFORMATION

Received by the Regents
November 17, 2006

Subject: Alternative Asset Commitments

Background and Summary: Under a May 1994 Request for Action, the University may commit to follow-on investments in a new fund sponsored by a previously approved partnership provided the fund has the same investment strategy and core investment personnel as the prior fund.

Pursuant to that policy, this item reports on the University's follow-on investments with the previously approved two real estate partnerships, two energy partnerships, and one venture capital partnership listed below.

LBA Realty Fund III, L.P., a real estate fund based in Newport Beach, CA, will continue the team's strategy to acquire a diversified portfolio of office and industrial properties located primarily in Western United States markets. The fund will target varying risk profiles, including value-added opportunities, core plus, and select build-to-suit and development projects. The fund will maintain a balanced approach to income and growth, with approximately one-half of the returns coming from current income.

This is the University's third investment with LBA Realty. The University committed \$20 million to LBA Realty Fund III, L.P., in September 2006. The University previously committed a total of \$45 million to prior LBA Realty sponsored funds.

Westbrook Real Estate Fund VII, L.P., a real estate fund based in New York with offices in San Francisco, Tokyo, London and Paris, will continue the team's strategy to identify investment themes which it believes will provide attractive opportunities over the life of each fund. For Fund VII the themes include corporate, government and other non-core sellers, dysfunctional ownership, under-valued real estate assets and portfolios, and urgent recapitalizations. Westbrook will make investments in well-located, high-quality assets available at significant discounts to both replacement cost and current market value, and that will be attractive to a wide range of buyers. Westbrook targets major cities of the world where there are supply constraints, high income jobs, numerous barriers to entry, high liquidity, revitalization of urban centers, and ease of travel. Typical investment size will be approximately \$20 million and the transactions are often privately negotiated. The portfolio is expected to be geographically diversified between the United States, Europe and Japan.

This is the University's second investment with the Westbrook Group. The University committed up to \$25 million to Westbrook Real Estate Fund VII, L.P. in September 2006. In 2005 the University committed \$20 million to Westbrook Real Estate Fund VI, L.P.

Lime Rock Partners IV, L.P., an energy fund based Westport, CT, with offices in Houston, TX, Calgary, Canada and Aberdeen, Scotland, will continue Lime Rock's strategy to make private equity investments in small energy companies in the many of the sectors of the industry including oil service equipment, drilling and technology, oil and gas transportation and marketing, exploration and production, refining and marketing, and energy technologies. Lime Rock will target investments in small, well-managed companies in high-growth segments of the energy industry. The firm will use rigorous, top down research to identify opportunities, proactive origination to source proprietary transactions, thorough due diligence prior to investment, identification and review of exit strategy alternatives prior to investment, active monitoring post-investment, and timely exits.

This is the University's third investment with Lime Rock Partners. The University committed \$32 million to Lime Rock Partners IV, L.P. in September 2006. The University previously committed a total of \$32.3 million to prior Lime Rock Partners sponsored funds.

Yorktown Energy Partners VII, L.P., an energy fund based in New York, will continue the team's strategy to make private equity investments in a broad range of energy companies primarily in the exploration and production, transportation, marketing and other midstream and manufacturing sectors. Criteria for investments include demonstrated cash flow, audited financial statements and significant management ownership. The firm's philosophy is to invest in companies with proven management teams often with prior experience in Yorktown investments, and to enhance the value of the investments by working closely with the management teams to

build operating cash flows and income. In addition, the Fund will target companies that are market leaders in their sector or that have a specific geographical or geological expertise.

This is the University's fifth investment with Yorktown Partners. The University committed \$22 million to Yorktown Energy Partners VII in September 2006. The University previously committed \$50 million to Yorktown Partners sponsored funds.

TPG Biotechnology Partners II, L.P., a venture capital fund located in Palo Alto, CA, invests in early and late stage companies in the biotechnology, biomedical devices, and life sciences industries, including companies focused on drug discovery and development, personalized medicine, medical devices, and pharmaceutical services. The fund's affiliation with Texas Pacific Group, a global private equity firm, facilitates TPG Biotechnology's access to investments on a broad geographic scale. The investment team consists of individuals with deep scientific knowledge and global operating experience.

The University committed \$20 million to TPG Biotechnology Partners II, L.P. in December 2005 and made an additional 10% commitment in August 2006, taking the total commitment to \$22.0 million.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Timothy P. Slottow", written over a horizontal line.

Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

November 2006