

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

Approved by the Regents
December 15, 2006

Subject: Alternative Asset Managers

Action Requested: Approval of Distribution Management Service Providers

Background and Summary: We recommend hiring Shott Capital and T. Rowe Price to manage the liquidation of securities distributed from the University's Alternative Asset programs, including Venture Capital, Private Equity and Energy, as well as other selected securities received by the University. The University's distribution manager since 1995, Credit Suisse Asset Management, has recently decided to stop providing distribution management services.

The University requires this service because its Alternative Asset managers will periodically, as a method of exiting an investment, distribute a company's publicly traded securities rather than sell them. The securities thus distributed can carry restrictive legends that must be removed before the shares can be sold. In addition, the increase in supply of shares following distribution frequently has a negative impact, which is often transient, on the securities' market values. There are two main components of distribution management service which address these issues. The operational component consists of the collection and removal of restrictions from and delivery of securities. The trading component consists of the critical function of identifying for which securities the reduction in market value is temporary and executing the orderly sale of relatively illiquid positions.

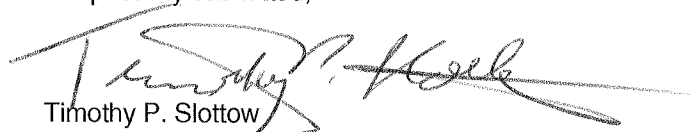
Shott Capital is a boutique investment manager specializing in the liquidation of distributed securities since 1987. In the intervening years, the firm has handled in excess of 15,000 distributions representing more than \$1 billion across its mandates and has developed commensurate operational expertise. The firm's singular focus allows it to add value by anticipating which securities will be distributed and concentrating its research resources on only those companies. In addition, its deep ties to the venture capital community help it to develop insight into a company's prospects. This combination of focus and depth is well suited to the management of distributions from smaller companies with less liquid securities typical of those distributed from the University's Venture Capital managers.

T. Rowe Price is a mutual fund manager with \$294 billion of assets under management. The firm has been providing distribution management services for more than 20 years with a dedicated team that leverages the larger organizations operational infrastructure and trading resources to expedite the monetization of distributed securities. T. Rowe Price has significant global small- to mid-cap research resources which will benefit the securities distributed from the University's Private Equity and Energy managers.

Both managers use an incremental approach in the liquidation of distributed securities which reduces risk while providing the opportunity for the University to reach its goal of realizing, in aggregate, the distribution value of distributed securities in cash proceeds within a specified period of time.

Hiring both Shott Capital and T. Rowe Price will diversify manager risk within the University's Distribution Management program and will provide effective management of stock distributions received from the University's Alternative Asset managers.

Respectfully submitted,



Timothy P. Slottow
Executive Vice President and
Chief Financial Officer