

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Received by the Regents
December 15, 2006

ITEM FOR INFORMATION

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, and one energy partnership listed below.

Hampshire Partners REIT VII, Inc., a real estate fund based in Morristown, New Jersey, will continue the firm's strategy to invest primarily in office, industrial and retail properties throughout the Northeastern and mid-Atlantic states. Hampshire will focus on markets where they have local expertise and will target properties that have not been broadly marketed or have fallen out of contract with other bidders. Properties will be acquired at prices significantly below replacement cost and will have correctable risk factors such as poor management, existing vacancies or imminent tenant rollover, where Hampshire can use its expertise to add value. It is expected that a significant number of the acquisitions will have a current or near-term income component. Holding periods will average less than five years and exits will include single asset and/or portfolio sales to institutional or individual investors as well as sales to 1031 exchange buyers.

This is the University's second investment with Hampshire Partners. The University committed \$20 million to Hampshire Partners REIT VII, Inc., in November 2006. In 2004 the University committed \$10 million to Hampshire Partners Fund VI.

KHP Fund II, L.P., a real estate fund based in San Francisco, will continue Kimpton Hospitality Partners' strategy to acquire, manage, lease, develop and redevelop boutique/lifestyle hotel properties in select major North American markets including cities like New York, Chicago, Boston, Philadelphia, Miami, Los Angeles and Honolulu. The Fund will primarily target existing hotels in desirable locations in need of renovation and/or market repositioning, existing buildings (such as office buildings, government buildings, warehouses, etc.) which are well located and suitable for conversion to hotels, and existing boutique hotels in good physical condition but in need of improved management and marketing that can benefit from the Kimpton management program. The hotels will be managed and operated by Kimpton Hotel & Restaurant Group, LLC. In addition to the hotel investments, the Fund will also own an interest in Kimpton Hotel Group, the parent company of Kimpton Hotel & Restaurant Group, and as such, will share in the revenues and growth of the management company.

This is the University's second investment with Kimpton Hospitality Partners. The University committed \$25 million to KHP Fund II, L.P., in November 2006. In 2005 the University committed \$20 million to Kimpton Hospitality Partners, L.P.

Kayne Anderson Energy Fund IV, L.P., an energy fund based in Los Angeles, with an office in Houston, will continue the team's strategy of making investments primarily in small and mid-cap oil and gas exploration and production companies and companies servicing those businesses. Kayne Anderson targets high-quality management teams on the verge of undertaking significant transactions or projects. A capital investment by the fund is expected to be a catalyst to accelerate or otherwise improve the contemplated transaction for the company. Investments are held for a relatively short time period, typically two to four years, at which time the portfolio company is able to refinance the Fund's investment through traditional borrowings supported by the increased cash flows from the successful project or the company is acquired by or merged into another company. The investments are expected to be geographically diversified across North America.

This is the University's second investment with Kayne Anderson Capital Advisors. The University committed \$30 million to Kayne Anderson Energy Fund IV, L.P. in November 2006. In 2005 the University committed \$20 million to Kayne Anderson Energy Fund III, L.P.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Timothy P. Slottow", with a long horizontal flourish extending to the right.

Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

December 2006