

Contact: Pam Elliott Cain

**COMMITMENT TO COMMONFUND PRIVATE EQUITY**

**Action Requested:** Consider recommending to the Board approval of an investment commitment in two Commonfund partnerships, private equity (CEP VII) and international (CIP VI), as recommended by Wilshire Associates, the Board's investment advisor.

**Executive Summary:** At its September 2005 meeting, the Board authorized changes that provided for additional asset classes and investment instruments in the investment portfolios that added private equity asset class.

Wilshire Associates has identified an additional investment opportunity for the private equity component of the Regent endowment portfolios:

- Commonfund Capital Private Equity Partners VII, L.P. (CEP VII)
- Commonfund Capital International Partners VI, L.P. (CIP VI)

A letter from Wilshire Associates regarding these opportunities is presented in the attachment.

The Commonfund is a New York Membership corporation dedicated to a broad cross section of the nonprofit world, including higher education, public and private foundations, hospitals and health care providers. The Commonfund was founded in 1971 through a grant from the Ford Foundation and currently manages approximately \$37 billion in assets for more than 1,600 nonprofit clients (2006).

Investment in the Commonfund is authorized by Iowa Code §12B.10 (4d) and the Regent Policy Manual 7.04 E (4l).

As authorized by the Board in September 2005, the universities invest portions of their operating portfolios in the Commonfund for Short Term Investments and the Commonfund Intermediate Term Fund as alternatives for short term investments.



To: The Board of Regents, State of Iowa  
cc: Pamela Elliott Cain  
From: Mark E. Brubaker  
Date: February 28, 2007  
Subject: ***Recommended Commitment to Commonfund Capital, Inc. Private Equity Funds***

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**Recommendation:**

Commonfund Capital, Inc. (“CCI”) is currently offering interests in two new investment partnerships, Commonfund Capital Private Equity Partners VII, L.P. (“CEP VII”) and Commonfund Capital International Partners VI, L.P. (“CIP VI”). For 2007, Wilshire recommends that the Board of Regents, State of Iowa (“the Board”) make commitments to CEP VII CIP VI as indicated in the schedule below. The expected final closing for each fund will be April 30, 2007. All partnership agreements will need to be executed by the Board staff by this date.

The three major styles of investment within CCI’s current fund offerings are growth equity, middle market and large leveraged buyouts. Later in 2007, CCI will be raising a fund investing primarily in venture capital. Wilshire will recommend that the Board also make a commitment to this fund once it is available. While Wilshire rates all of CCI’s Private Equity Funds highly, Wilshire believes that the venture capital fund is the strongest of CCI’s fund offerings due to its access to many of the best venture capital partnerships in the U.S., but it has limited capacity and preferential treatment is given to those investors who are currently investing in other CCI Private Equity Funds.

Wilshire recommends that the Board make the following commitments to CCI:

**Commitment Schedule (\$ mm):**

	U. of Iowa	ISU
CEP VII	2.4	1.6
CIP VI	1.2	0.8
Venture Capital	2.4	1.6
<b><i>Total</i></b>	<b><i>6.0</i></b>	<b><i>4.0</i></b>



Please note that due to the limited capacity in the venture capital fund, it may be necessary for the Board to request a larger allocation to this Fund because CCI will likely scale back the Board's requested commitment. This issue will be addressed in more detail once CCI begins accepting commitments to this fund.

**Background:**

The Board has established a long-term policy allocation of 5% to private equity partnerships, consisting primarily of venture capital, buyout funds and distressed debt, for the University of Iowa and the Iowa State University Endowments. These investments are expected to generate returns 3%-5% higher than publicly traded investments over their lifetime. They also are of higher risk than their public markets counterparts due to the fact they focus on very young companies in emerging sectors of the economy (venture capital) and/or utilize leverage (buyout funds) and they are significantly less liquid.

Unlike public markets investments, a private equity allocation will take approximately seven years to achieve, due to the long investment cycle for this asset class. A typical private equity fund will draw down capital from investors over a 3-5 year period and have an expected life of 12-14 years. During the life of each partnership, distributions will also be made back to investors as investments are liquidated, or realized, primarily through initial public offerings or sales to strategic buyers.

In order to achieve and maintain a private equity allocation target of 5%, most institutional investors seek to make regular and fairly stable commitments to this asset class on an annual basis. The primary benefit of this type of implementation methodology is that it allows investors to diversify by vintage year (i.e. not investing all of the money at once). Vintage year diversification is a key element in managing the risk of a private equity program because these types of investments are highly cyclical and unpredictable. Therefore, Wilshire has mapped out an implementation schedule that calls for annual commitments from the University of Iowa Endowment and Iowa State University Endowment of \$6 million and \$4 million, respectively. These commitment amounts will be reassessed annually and may change due to the growth of total Endowment assets over time, but it is expected that the Board will be making commitments on a regular basis as long as an allocation to private equity of 5% is desired. Please note that the cumulative commitments will ultimately exceed 5% in order for the actual allocation to be maintained at 5% due to the fact that distributions are expected to be made from earlier private equity investments.

In 2006, the Board made its initial private equity commitment to the Lehman Brothers Fund of Funds. This is a diversified fund-of-funds that primarily invests in U.S. Venture Capital and U.S. and Non-U.S. Buyout funds.



**CCI Private Equity Funds Summary**

CEP VII is a multi-manager program of private equity investments principally within the United States. CIP VI is a multi-manager program of international private equity investments principally outside the United States. These partnerships investments are being offered to select nonprofit investors including, but not limited to education endowments, foundations, hospitals and health systems, and cultural and social service organizations.

Each Partnership will primarily seek to achieve long-term capital appreciation and will invest in its relevant sector through investment funds (generally organized as limited partnerships), direct investments (principally structured as co-investment alongside other private equity managers, or other appropriate structures (“Target Investments”). Each Partnership may purchase Target Investments through the primary and secondary (resale) market. The programs seek to generate superior risk-adjusted net returns from Target Investments.

Please see the attached Wilshire research for additional details on CCI and these Funds.