

MICHIGAN STATE
UNIVERSITY

April 6, 2011

MEMORANDUM

To: Trustee Finance Committee

From: Fred L. Poston 

Subject: New Investment Manager - Contrarian Capital Management, L.L.C.

RECOMMENDATION

BE IT RESOLVED that the Trustee Finance Committee recommends that the Board of Trustees select Contrarian Capital Management, L.L.C. as an investment manager.

BACKGROUND

Contrarian Capital Management, L.L.C. (Contrarian) is seeking \$350 million for Contrarian Distressed Real Estate Debt Fund II, L.P. (the Fund). The Fund will invest in distressed U.S. real estate-related debt and securities. Multiple property types will be targeted including office, residential, hospitality and retail.



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The Fund will continue Contrarian's strategy of identifying inefficiently-priced, complex distressed real estate debt opportunities that are typically not targeted by competing conventional real estate and corporate investors. The focus will be on four investment themes: 1) purchasing small to mid-sized discounted loans, 2) acquiring non- or sub-performing loans and then foreclosing on the borrower, 3) investing in large syndicated commercial mortgage-backed securities, and 4) originating new loans to distressed borrowers. In addition, the Fund may invest up to 20% of its capital directly in real estate owned by lenders or foreclosed properties from bank lenders. Contrarian intends to limit downside risk by investing mostly in senior debt vehicles. The Fund uses little leverage for investments and does not use fund-level leverage.

Cambridge Associates advises, and the Investment Advisory Subcommittee and Administration concur, that Contrarian Distressed Real Estate Debt Fund II, L.P. represents an opportunity to expand MSU's real estate portfolio by investing with an experienced distressed real estate manager whose strategy is complementary to existing managers. The Administration plans to invest \$3 million in the Fund.

cc: D. Brower, N. Carter, M. Haas, G. Klein, K. Lindahl