

Establishment of An Associated Entity – The University of North Carolina at Chapel Hill

In September 2006, the Board of Governors approved a request from the Kenan-Flagler School of Business of the University of North Carolina at Chapel Hill to establish three associated entities, the KFBSF Private Equity Fund I, L.P., the KFBSF Real Estate Fund I, L.P., and KFBSF, Inc., none of which had tax-exempt status at their time of establishment. Kenan-Flagler and UNC-Chapel Hill now request authority to establish a new student investment fund.

The University of North Carolina Regulation #600.2.5.2[R] requires that associated entities have not-for-profit corporate and tax-exempt status unless the Board of Governors approves otherwise. The non-profit corporation and two limited partnership investment funds for Kenan-Flagler School of Business were approved as associated entities without nonprofit tax-exempt status. They are educational programs of the Business School. Private Equity Fund I is fully invested and the request is to establish Private Equity Fund II.

The limited partnerships give selected students hands-on experience in operating private investment funds. These students work with faculty and friends of the Business School to identify and evaluate investment opportunities and to make investment recommendations to the General Partner of each entity. The students participate, without pay, as part of an investment management course, for academic credit. After an investment is made by the partnerships, the students monitor the investment. Through the identification, evaluation and monitoring process, students gain insights into the operation and management of private investment funds and their portfolio companies and establish personal and professional relationships with investment managers. A secondary objective is to provide investment returns to the limited partners who are the investors.

The General Partner is KFBSF, Inc., a North Carolina not-for-profit corporation of which the Kenan-Flagler Business School Foundation, Inc. (the Business Foundation) is the sole member. Investors are by invitation only, generally have a relationship with the School, and must meet certain eligibility.

The General Partner is organized and operated to support the Business School and its educational programs. It is managed under the direction of its Board of Directors, which consists of six directors, four of whom are employees of the University assigned to the Business School and two of whom are elected by the Board of Directors of the Business Foundation.

It is recommended that the Board of Governors allow the establishment of Private Equity Fund II as a UNC-Chapel Hill associated entity and an educational program at the Kenan-Flagler School of Business without obtaining nonprofit tax-exempt status.