

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, Inc., the KFBSF Private Equity Fund I, L.P., and the KFBSF Real Estate Fund I, L.P. -- none of which had tax-exempt status at the time of establishment. In February 2010, the Board of Governors approved a similar request to establish Private Equity Fund II, without tax-exempt status. They are all educational programs of the Business School.

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 requirements. 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.

Kenan-Flagler and UNC-Chapel Hill now request authority to establish a fourth student investment fund. KFBSF Real Estate Fund I is almost fully invested and the request is to establish Real Estate Fund II. The University of North Carolina Regulation #600.2.5.2[R] requires that associated entities have nonprofit corporate and tax-exempt status unless the Board of Governors approves otherwise.

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.

It is recommended that the Board of Governors approve the establishment of Real Estate 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.