

APPENDIX C

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: (1) KFBSF Private Equity Fund I, L.P. and (2) KFBSF Real Estate Fund I, L.P. as for-profit investment funds, and (3) KFBSF, Inc., a North Carolina not-for-profit corporation of which the Kenan-Flagler Business School Foundation, Inc. (Business Foundation) is the sole member and serves as General Partner for the funds. The Board of Governors approved similar requests to establish Private Equity Fund II, L.P. (in 2010) and to establish Real Estate Fund II, L.P. (in 2011), both without tax-exempt status. They are all part of an educational program of the Business School and each fund is about \$2 million to \$3 million in size.

The Limited Partner investors are by invitation only, generally have a relationship with the School, and must meet certain eligibility requirements. In addition to the General Partner, profits are distributed to the Limited Partners. The current real estate funds both have 31 Limited Partners. Any funds to the General Partner in excess of expenses are transferred to the Business Foundation.

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. The General Partner is also an “Associated Entity” under Board of Governors’ rules and has adopted conflict of interest, document retention, and whistleblower policies in accordance with the rules and on behalf of these investment funds.

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Kenan-Flagler and UNC-Chapel Hill now request authority to establish a fifth student investment fund -- KFBSF Real Estate Fund III, L.P. -- since KFBSF Real Estate Fund II, L.P. is almost fully invested (about \$400,000 remaining). The remaining proceeds are likely to be invested across two transactions during the next few months. If future students are to participate in this education program, additional funds will need to be raised and an additional real estate fund established. 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.

These limited partnership funds give selected students hands-on experience in operating private investment funds. These students work with faculty and friends of Kenan-Flagler to identify and evaluate investment opportunities and to make investment recommendations to the General Partner. 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 as well as establish personal and professional relationships with investment managers. A secondary objective is to provide investment returns to the partners who are the investors.

It is recommended that the Board of Governors approve the establishment of KFBSF Real Estate Fund III, L.P. as a UNC-Chapel Hill associated entity and an educational program at the Kenan-Flagler School of Business without obtaining nonprofit tax-exempt status.