



AGENDA ITEM

A-5. Establishment of For-Profit Associated Entity –
University of North Carolina at Chapel HillJennifer Haygood

Situation: The University of North Carolina at Chapel Hill has requested approval to establish a for-profit associated entity (“KFBSF Real Estate Fund V”) to manage real estate investment funds as an educational program at the Kenan-Flagler School of Business.

Background: Section 600.2.5.2[R] (specifically section C.2.) of the UNC Policy Manual requires constituent institutions to receive approval from the Board of Governors to establish an associated entity on a for-profit basis. Since 2006, the Kenan-Flagler School of Business has established seven for-profit student investment funds (three private equity and four real estate) with Board approval. These funds are generally \$2.5 million to \$3.5 million in size and are established primarily as an educational program. Students in both the Master of Business Administration (MBA) and Bachelor of Science in Business Administration (BSBA) programs evaluate investment opportunities and make recommendations to the General Partner, KFBSF, Inc., a N.C. nonprofit corporation established by Kenan-Flagler Business School Foundation, Inc. (Business Foundation). In addition to the General Partner, profits are distributed to the Limited Partners. Any funds to the General Partner in excess of expenses are transferred to the Business Foundation.

Assessment: These funds provide MBA and BSBA students with hands-on experience in operating a private investment fund. KFBSF Real Estate Funds I, II, and III are fully invested, and KFBSF Real Estate Fund IV is almost fully invested. If future students are to participate in this educational program, additional funds will need to be raised and an additional real estate fund established (“KFBSF Real Estate Fund V”).

Action: This item requires a vote by the committee, with a vote by the full Board of Governors through the consent agenda.

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ISSUE OVERVIEW

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.; (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), Real Estate Fund II, L.P. (in 2011), Real Estate Fund III, L.P. (in 2014), Private Equity Fund III, L.P. (in 2015), and Real Estate Fund IV (in 2017) without tax-exempt status. These student investment funds are all part of an educational program of the Business School and each fund ranges from \$2.5 million to \$3.5 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. There are 31 Limited Partners in Real Estate Fund I, 39 Limited Partners in Real Estate Fund II, 51 Limited Partners in Real Estate Fund III, and 55 Limited Partners in Real Estate Fund IV. 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 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.

Kenan-Flagler and UNC-Chapel Hill now request authority to establish an eighth student investment fund — KFBSF Real Estate Fund V, L.P. — since KFBSF Real Estate Fund IV, L.P. is almost fully invested. If future students are to participate in this educational program, additional funds will need to be raised and an additional real estate fund established. Section 600.2.5[R] (specifically section C.2.) of the UNC Policy Manual requires that associated entities have nonprofit corporate and tax-exempt status unless the Board of Governors approve otherwise.

The primary objective of these limited partnership funds is to give selected students hands-on experience in operating private investment funds. To our knowledge, all of the KFBSF Real Estate Funds are the only student-managed real estate private equity funds in the U.S. 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. 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 V, 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.