

November 16, 2009

*Established by
Evelyn F. McKnight
to Alleviate Memory Loss
in the Aging.*

Shirley Salloway Kahn, Ph.D.
Vice President for Development, Alumni and External Relations
UAB Development Office
1530 3rd Avenue South, AB 1264
Birmingham, Alabama 35294-0112

Trustees

*John G. Clarkson, M.D.
Miami, FL*

*J. Lee Dockery, M.D.
Gainesville, FL*

*Michael L. Dockery, M.D.
Charlotte, NC*

*Nina Ellenbogen Raim, M.D., J.D.
Miami Beach, FL*

*Judith A. Salerno, M.D., M.S.
Washington, DC*

*SunTrust Bank
Orlando, FL*

Dear Dr. Kahn,

The intention of this Letter of Agreement is to clarify the terms that were set forth in the Amended and Restated Gift Agreement between the McKnight Brain Research Foundation (MBRF) and The Board of Trustees of The University of Alabama for The University of Alabama at Birmingham (UAB).

In the event that in a given year MBRF or UAB does not provide the \$1 Million Endowment payment or payment match, respectively, the "Expendable Matching Sum Equivalent" should be exercised pursuant to Schedule 4.1 in the agreement. What is not in the agreement is how the "endowment distribution" dollars will be calculated in a year where the MBRF or UAB scheduled contributions are not made by the October 1st deadline. To clarify, the endowment distribution dollars will be calculated based on UAB's annual endowment calculation as of December 31st of the prior year. Those calculations will be available to MBRF by January 31st each year. If the MBRF or UAB does not fund all or any part of the \$1 Million Endowment payment or payment match as of October 1st of a given year, said party will be responsible for funding the minimum endowment payment for the unfunded dollars on the due date. It is also agreed that the MBRF will be responsible for notifying UAB by September 1st of each year regarding their intentions to fund the October 1st Endowment payment.

Please feel free to contact me if you have any questions.

Sincerely,

Teresa W. Borcheck

TWB/tma

Cc: MBRF Trustees
Henry H. Raattama, Esquire
Robert R. Rich, M.D.
J. David Sweatt, Ph.D.
Daphne Powell

Please address all correspondence to

Teresa Borcheck • SunTrust Bank • Post Office Box 620005 • Orlando, Florida 32862-0005 • (407) 237-5907

McKnight Brain Research Foundation Amended and Restated Gift Agreement
The Board of Trustees of The University of Alabama for
The University of Alabama at Birmingham

This Agreement is made as of the 3rd day of August, 2009, by and between the McKnight Brain Research Foundation ("MBRF") and The Board of Trustees of The University of Alabama (the "Board") for The University of Alabama at Birmingham ("University"). References herein to UAB are to the University of Alabama School of Medicine located at the University of Alabama at Birmingham.

1. **Background.** MBRF and University entered into a gift agreement dated the 15th day of May 2004 (Prior Agreement). All payments required under Prior Agreement have been made (Prior Gift). This Agreement provides for additional Funding and additional University obligations.

MBRF and the University intend that this Agreement is a continuation of the Chair and Institute established under the Prior Agreement. This Agreement contains the entire agreement between the parties.

2. **The Gift.** The MBRF agrees to contribute an aggregate \$6,000,000 to the University ("Gift") according to the Schedule 4.1 (references to Schedule herein are the Schedules of this Agreement) in Section 4 (references to Sections herein are to Sections of this Agreement). The Gift and any and all additions to the Gift, including but not limited to matching dollars, growth, and income, shall, for purposes of this Agreement, be referred to as the Gift and shall be held and used in accordance with this Agreement. References herein to Gift shall include the Prior Gift.

3. **Purpose.** The purpose of the Gift is to promote research and investigation of the brain in the fundamental mechanisms that underlie the neurobiology of memory and cognitive

changes that occur during the process of aging principally intended for clinical application, to accomplish alleviations of age related memory loss. All references herein to Purpose or Purposes shall be to this purpose (the "Purpose"). The MBRF believes that research in Alzheimer's disease is very important. The research emphasis of the MBRF, however, is on the non Alzheimer memory loss associated with the aging process. The Purpose will be so interpreted. Any change in the Purpose will require approval of the MBRF.

4. Schedule and Form of Contribution.

4.1 The MBRF will make the transfers to the University as set forth on Schedule 4.1.

4.2 *Endowment.* The MBRF transfers labeled as Endowment in Schedule 4.1 shall be used and administered as provided herein and shall be referred to as the "Endowment Fund". The Endowment Fund and Endowment Distribution are defined on Schedule 4.1 and shall be used solely to support the Institute.

4.3 *Operations.* The transfers labeled Operations in Schedule 4.1 shall be used and administered as provided herein and as detailed in Schedule 4.1 and shall be referred to as the "Operation Fund".

4.4 *Form of Contribution.* It is agreed that the MBRF may transfer cash and/or publicly traded securities. For this purpose, securities will be valued in accordance with the federal income tax rules that apply to valuing charitable contributions.

5. University Match.

5.1 *100% Match.* The MBRF is making this Gift contingent upon a 100% match by the University or University donors of each MBRF contribution described in Schedule 4.1 and, except as provided in Section 5.2, at the time of the transfer (the "Match"). It is agreed

the Match is a University Obligation as described in Section 9 hereof and dealt with in Section 11 hereof. For purposes of this Agreement, the University match of the MBRF endowment contribution shall be referred to as the Endowment Match.

5.2 *Endowment Distribution.* In the event that in a given year the University does not provide the \$1 Million Endowment Match, the University will provide a distribution from other sources to the Institute in an amount equal to the endowment distribution that would have been generated from the \$1 Million Endowment Match for said year. Similarly, MBRF may, in lieu of funding the Endowment according to the schedule of payments in Schedule 4.1 hereof, provide the Institute an amount equal to the endowment distribution that would have been generated from the endowment addition for said year. This option is repeated on Schedule 4.1.

5.3 *Date Certain.* The Gift and Match shall be completed by January 1, 2014, provided, however, that upon written request delivered prior to January 1, 2014, the Match and the Gift may be extended to December 31, 2014.

5.4 *Multiple Donors and Accounting.* MBRF acknowledges that the University Match may come from multiple donors through the establishment of various endowments in a variety of University units. Said endowments will be used as specified in this Agreement. For University purposes said endowments will be accounted for individually under the University's standing practice for named funds, provided however that said endowments will be reported as a single unit for purposes of the records and reports under this Agreement.

6. **Endowment and Chair Fund.**

6.1 *Investment of the Endowment Fund and Chair Fund.* The Endowment Fund and Chair Fund shall be invested by the University in accordance with its Endowment

Spending and Investment Policy ("Investment Policy") as of the date of this Agreement and as the same may be changed from time to time by the University. Schedule 6.1 is the current Investment Policy. It is agreed that if, for any reason, the authority to invest the Endowment and Chair Fund is removed from the University or the University's investment discretion is limited, then at the direction of MBRF the Endowment Fund and the Chair Fund will be managed by one or more corporate fiduciaries mutually agreed upon by MBRF and the University. Should that occur, the Investment Policy will be to produce a real total return on assets invested that will preserve or increase the Endowment Fund's and Chair Fund's real purchasing power and at the same time provide a stable source of perpetual financial support for the Institute and Chair.

6.2 *Spending Policy.* The University will make distributions from the Endowment Fund and Chair Fund in accordance with its spending policy as adopted from time to time for permanent endowments. If, at any time, the authority to adopt and implement a spending policy is removed from the University, or in any way limited, the Endowment Fund and Chair Fund will annually distribute an amount equal to the amount that would be distributed if the University's spending policy or spending rate for the year (that is the percentage of the total Endowment Fund and Chair Fund distributed to support the Chair and Institute each year) was equal to the unweighted average spending policy or rate (for permanent fund type endowments) used by the private colleges with the 20 largest endowments in the United States. It is recognized that this average rate will change from year to year. The average rate for any year shall be determined as of the December 31st preceding the year to which the spending rate will apply.

6.3 *Annual Report.* MBRF shall receive at least annually an investment performance and spending policy report on the Endowment Fund and Chair Fund.

6.4 *Uses.* The Chair Fund and Chair Fund Income shall be used solely to support the Chair. The Endowment Fund and Endowment Income shall be solely to support the Institute.

6.5 *Permanent.* The Endowment and Chair Fund shall be restricted non expendable net assets as defined in Statement No. 34 of the Governmental Accounting Standards Board, as the same exists at the date of this gift.

7. **Prohibited Uses.** The University agrees that no portion of the Endowment or Chair Fund will be used directly or indirectly to construct, purchase, improve or maintain real property, pay overhead or indirect costs, or otherwise be used for other than direct expenditures in support of the Institute and Chair (herein "Prohibited Use"). This Prohibited Use requirement shall be a University Obligation. The annual reports provided by the University will include an affirmative statement to the effect that no portion of the Endowment or Chair Fund or distributions from the Endowment or Chair Fund have been used for any Prohibited Use as described in this paragraph.

8. **Commercial Exploitation.** The University and the MBRF agree that if any property is developed, invented, created, or otherwise results from the research conducted as a result of the Endowment or Chair Fund, the property will be owned by the University, and the University agrees that any revenue derived therefrom shall be allocated to the Institute and Chair according to University policy as the same may exist at the time of the commercial exploitation. A copy of the current University Patent Policy is attached as Schedule 7a and a copy of the University's commercial licensing revenue distribution guidelines is attached as Schedule 7b.

9. **University Obligations.** In recognition of the Gift and Prior Gift , the University agrees it will do the following (referred to as "University Obligations"):

9.1 *Institute.*

9.1.1 *Institute Director.* The University has established the Evelyn F. McKnight Brain Institute (the "Institute") on a permanent basis within the University. J. David Sweatt, Ph.D. is the current Director of the Institute. If Dr. Sweatt should leave the University, the University will name a person whose research is in furtherance of the Purpose as the Director of the Evelyn F. McKnight Brain Institute.. The Director's position will not remain vacant for more than one (1) year without approval of MBRF. The Director will always be a full time member of the University Faculty. In the event the Director does not fulfill the Purpose of or does carry out the goals and objectives of the Institute, MBRF may request the removal and naming of another Director. The ultimate removal of the Director will be at the discretion of the Senior Vice President and Dean of the School of Medicine according to the University's standing policies and procedures and that the naming of the subsequent Directors will be subject to the then current policies and procedures of the Board and subsequent approval by the Board. The University agrees the naming of subsequent Directors shall be made in consultation with the MBRF. References herein to Director are to the Director of the Institute.

9.1.2 *Continuation of the Institute and Activities.* The Institute will exist in perpetuity. Schedule 9.1 is a description of the Institute. The activities conducted in the future at the Institute will be at substantially the same level, quantity and quality, or greater than the activities described in Schedule 9.1.

9.1.3 *Location.* The Institute shall be housed on the entire 9th, 10th and 11th floors of the Richard C. and Annette N. Shelby Interdisciplinary Biomedical Research Building (the "Shelby Building"), comprising 75,000 square feet of space. To the extent reasonably practicable, scientists supported by the MBRF will be assigned space in the Institute.

The location of the Institute shall not be changed or the space allocation reduced without prior knowledge and agreement by the MBRF.

9.1.4 *Recognition/Publicity.* The University agrees to the following:

9.1.4.1 *References.* All references by the University to the Institute should be to the Evelyn F. McKnight Brain Institute. To the extent reasonably practicable, the University shall cause print and broadcast media and scientific publications and presentations to refer to the Institute as the Evelyn F. McKnight Brain Institute. Copies of all such material shall be sent to the MBRF.

9.1.4.2 *Signage.* Evelyn F. McKnight Brain Institute shall appear on or around the Shelby Building in a fashion similar to other institutes named in recognition of donors to the University, including signage on the 9th, 10th and 11th floors, identifying those floors as the Institute.

9.1.4.3 *Stationery.* Print or electronic media used by the Institute shall show its name as being the Evelyn F. McKnight Brain Institute.

9.1.5 *Collaboration, Consultation, Reports and Meetings.*

9.1.5.1 *Collaboration/Visiting Professors.* The University will endeavor to identify research scientists involved in similar research at other institutions who would collaborate with scientists at the Institute to complement or augment the Institute, if it is anticipated such collaboration would be beneficial.

9.1.5.2 *Annual Consultation.* The operations of the Institute will be within the sole discretion of the University. However, the University shall discuss the operations with the MBRF at least annually in a consultation mode and shall take into consideration the MBRF's input regarding Institute operations.

9.1.5.3 *Annual Report.* At least annually, the University shall prepare a report that describes the operations of the Institute including results of operations and ongoing and recently completed research. The report shall include an affirmative statement that the operations further the Purpose of the Fund and that no portion of the Fund was used for a Prohibited Use or other than in support of the Purpose. In addition to the annual report, in order to keep the MBRF reasonably informed about the Institute's activities, the University will report significant Institute events to the MBRF when they occur. A suggested template for the annual report is at Schedule 9.1.5.3.

9.1.5.4 *Meetings and Programs.* The University shall notify the MBRF of meetings, conferences, and similar functions relating to the Institute and, when appropriate, permit the MBRF members to attend as observers. It is intended that this will include both formal internal University meetings and seminars, presentation of papers, and similar activities, generally open to the public.

9.2 *The Endowed Chair.*

9.2.1 *The Endowed Chair.* The University has established the "Evelyn F. McKnight Endowed Chair for Learning and Memory in Aging" (the "Chair") on a permanent basis within the University. The value of the Chair Fund as of the date hereof (the "Chair Fund") is One Million Five Hundred Thousand Dollars (\$1,500,000). References herein to the Chair shall be to the Evelyn F. McKnight Endowed Chair for Learning and Memory in Aging. Schedule 9.2 hereof is a description of the Chair. The activities conducted in the future by the Chair will be at substantially the same level, quantity and quality, or greater than the activities described in Schedule 9.2.

9.2.1.1 *Naming of Chair.* It is anticipated that the University will periodically name a qualified person of national prominence to the Chair. The current appointee is J. David Sweatt, Ph.D. The Chair will not remain vacant for more than (1) year without approval of the MBRF. The occupant of the Chair will be a full time member of the University Faculty. In the event the Chair does not fulfill the Purpose of or does not carry out the goals and objectives of the Chair, MBRF may request the removal and naming of another Chair. The ultimate removal of the Chair occupant will be at the discretion of the Senior Vice President and Dean of the School of Medicine according to the University's standing policies and procedures and that the naming of the occupant of the Chair will be subject to the then current policies and procedures of the Board and subsequent approval by the Board. The University agrees the naming of subsequent Chairs shall be made in consultation with the MBRF. References herein to the Chair shall mean either the occupant of the Chair or the Chair as context dictates.

9.2.1.2 *Annual Report.* At least annually, the University shall prepare a report that describes the operations of the Chair including results of ongoing and recently completed research. The report shall include an affirmative statement that the operations further the Purpose of the Chair Fund and that no portion of the Chair Fund was used for a Prohibited Purpose or other than in support of the Purpose. In addition to the annual report, in order to keep the MBRF reasonably informed about the Chair's activities, the University will report significant events to the MBRF when they occur. A suggested template for the annual report is at Schedule 9.1.5.3.

9.2.1.3 *Annual Consultation.* The operations of the Chair will be within the sole discretion of the University. However, the University shall discuss the operations

with the MBRF at least annually in a consultation mode and shall take into consideration the MBRF's input regarding Chair activities.

9.2.1.4 *Recognition.* The University agrees to recognize and publicize the Evelyn F. McKnight Endowed Chair for Learning and Memory in Aging in the same fashion and manner that similarly situated and funded (the dollar amount of the Chair Fund) chairs are recognized. Additionally, references to the research work accomplished as a result of the Chair shall refer to the Evelyn F. McKnight Endowed Chair for Learning and Memory in Aging. Reference for this purpose shall include press releases, annual reports of the University, print and broadcast media, etc. It is agreed that prior approval shall not be required for the use of the name the Evelyn F. McKnight Endowed Chair for Learning and Memory in Aging when made in connection with describing the work of the Chair or otherwise having to do with the ongoing Chair.

9.3 *Match.* The Match (both amount and time) described in Section 5 hereof shall be a University Obligation.

10. **Recognition and Publicity.**

10.1 *Recognition.* The Gift will be given recognition similar to that given contributions of the dollar amount of the Gift. For this purpose, the dollar amount of the Gift shall include any match (whether from the University or any other source) received by reason of the Gift and the Prior Gift.

10.2 *Press Releases.* The University and the MBRF agree that press releases and other information announcing the Gift shall be subject to prior approval of both the MBRF and the University, which approval will not be unreasonably withheld. Approval by the

University's Vice President for Development, Alumni and External Relations, or his or her designee, shall satisfy this requirement or comply with the Purpose.

11. **Gift Refund.** The MBRF has made the Gift and Prior Gift in reliance on the Chair and Institute continuing on a permanent basis in the form and nature that has been presented to the MBRF and as described in Schedule 9.1 and Schedule 9.2. In the event that if, for any reason, the University is unable to satisfy any University Obligations or carry out the Purpose or fails to carryout the activities described in Schedules 9.1 and 9.2, then the Endowment Fund and the Chair Fund shall be subject to refund as described below. For this purpose, failure to carry out the Purpose shall include changes at the Institute, Chair and University that materially and structurally change or eliminate the operations of the Institute, Chair or University. A material change will be deemed to occur if the Institute and/or Chair programs presented to the MBRF by the University when soliciting the gift are materially changed as to nature or scope. The events described in this Section 11 above are referred to herein collectively as a Refund Event. If there is a Refund Event, at the option of the MBRF, the University will either transfer an amount equal to the then value of the Endowment Fund and Chair Fund (not including any Match) to a qualifying organization designated by the MBRF, or to the MBRF if it remains a "qualifying organization". For this purpose, a qualifying organization means an organization which is conducting activities consistent with the Purpose and/or those described in Schedule 9.1 and 9.2 and to which the University is not prohibited by federal or state law (including tax laws) from making distributions. The University agrees that MBRF shall have standing to enforce the Gift Refund provided for in this Section 11. In all events, MBRF will consult with the University in an effort to modify the Purpose prior to

evoking the Refund Event mechanism. If the University and MBRF do not agree to a modified Purpose, the Refund Event mechanism will be implemented.

12. **University Qualification.** The Internal Revenue Service has declared the Board to be a duly qualified charitable organization under Section 501(c)(3) and also an organization described in Sections 509(a)(1) and 170(b)(1)(A)(ii) of the Internal Revenue Code of 1986, as amended, and not a private foundation under the provisions of Section 509(a). The Board is currently listed as such a qualifying organization in IRS Publication 78, and the University's Federal Tax Identification Number is 63-6005396.

13. **Entire Agreement.** This Agreement constitutes the entire Agreement among the parties and supersedes any prior understandings, agreements, or representations by and among the parties written or oral to the extent that they were in any way related to the subject matter hereof.

14. **Notices.** Notices hereunder shall be given to the parties set forth below and shall be made by hand delivery, facsimile, overnight delivery or by regular mail. If given by regular mail, the notice shall be deemed to have been given within a required time if deposited in the U.S. mail, postage prepaid, within the time limit. For the purpose of calculating time limits which run from the giving of a particular notice, the time shall be calculated from actual receipt of the notice. Any deadline which falls on a Saturday, Sunday or legal public holiday, shall be extended to the next business day. Notices shall be addressed as follows, or to such other address as is designated in writing by the University or the MBRF to the other party.

If to the University:

Shirley Salloway Kahn, Ph.D.
Vice President for Development, Alumni and External Relations
UAB Development Office
1530 3rd Avenue South, AB 1264

Birmingham, Alabama 35294-0112
Telephone; (205) 934-0177
Facsimile: (205) 975-8800

Copy to:

Robert R. Rich, M.D.
Senior Vice President and Dean
University of Alabama School of Medicine
1530 3rd Avenue South, FOT 1203
Birmingham, Alabama 35294-3412
Telephone: (205) 934-1111
Facsimile: (205) 934-0333

J. David Sweatt, Ph.D.
Evelyn F. McKnight Chair
Professor and Director
Evelyn F. McKnight Brain Institute at UAB
1530 3rd Avenue South, SHEL 1010
Birmingham, Alabama 35294-2182
Telephone: (205) 975-5196
Facsimile: (205) 975-5097

If to the MBRF:

c/o SunTrust Bank, Corporate Trustee
P.O. Box 620005
Orlando, Florida 32862-0005
Attention: Teresa W. Borcheck, Senior Vice President
(407) 237-5907 (o)
(800) 432-4760, ext 5907 (o)
(407) 237-5604 (f)

15. **Severability.** Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any jurisdiction.

16. **Prevailing Party.** To the extent that either party must file an action to obtain the enforcement of this Agreement, the prevailing party therein shall be entitled to an award of their reasonable attorney's fees and costs (including appeals) regardless of whether such cost would ordinarily be taxable. The court or administrative body with jurisdiction over this matter, in

rendering an opinion on an enforcement action, shall determine which party has prevailed; if no party prevails, or if both parties prevail, then each party shall bear their own attorney's fees and costs.

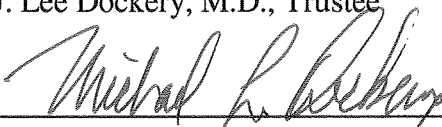
17. **Authorization.** This Agreement refers to the Board, the University and UAB (the Organizations or Organization). The University of Alabama at Birmingham and the University of Alabama School of Medicine at UAB are parts of the Board of Trustees of The University of Alabama, a single legal entity. The signatories hereto on behalf of the Board of Trustees of the University of Alabama, the Board of Trustees of the University of Alabama for the University of Alabama at Birmingham, and the University of Alabama School of Medicine, located at the University of Alabama at Birmingham, represent that they have full authority to bind the Organizations and that this Agreement will be enforceable by MBRF as to each Organization. The MBRF and the Organizations represent that each has the full power and authority (including full corporate power and authority) to execute and deliver this Agreement and perform its obligations hereunder.

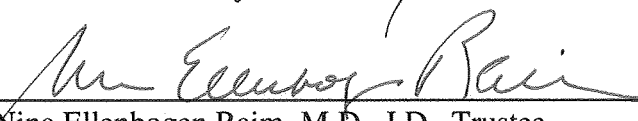
[Signatures follow on next page.]


McKNIGHT BRAIN RESEARCH FOUNDATION

By: 
John G. Clarkson, M.D., Trustee

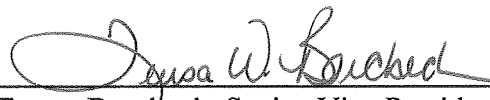
By: 
J. Lee Dockery, M.D., Trustee

By: 
Michael L. Dockery, M.D., Trustee

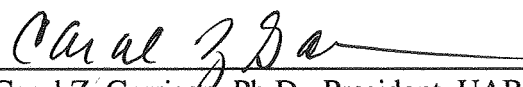
By: 
Nina Ellenbogen Raim, M.D., J.D., Trustee

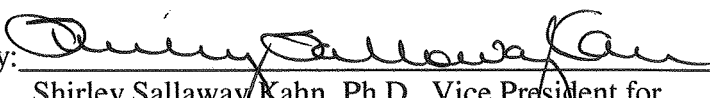
By: 
Judith A. Salerno, M.D., M.S., Trustee


SUNTRUST BANK, CORPORATE TRUSTEE

By: 
Teresa Borcheck, Senior Vice President, Florida
Regional Manager Foundations & Endowments
Specialty Practice

**THE BOARD OF TRUSTEES OF THE UNIVERSITY
OF ALABAMA FOR THE UNIVERSITY OF
ALABAMA AT BIRMINGHAM**

By: 
Carol Z. Garrison, Ph.D., President, UAB

By: 
Shirley Sallaway Kahn, Ph.D., Vice President for
Development, Alumni, and External Relations, UAB

By: 
Robert R. Rich, M.D., Senior Vice President and Dean
University of Alabama School of Medicine

Schedule 4.1

Proposed Financial Schedule for the Evelyn F. McKnight Brain Institute at UAB

INCOME

Date	MBRF CONTRIBUTION*		UAB MATCH*		Endowment Distribution ⁽¹⁾
	Endowment	Operations	Endowment	Operations	
10/01/09	\$ 1,000,000	\$ 500,000	\$ 1,000,000	\$ 500,000	
10/01/10	\$ 1,000,000	\$ 500,000	\$ 1,000,000	\$ 500,000	\$ 100,000
10/01/11	\$ 1,000,000		\$ 1,000,000		\$ 200,000
10/01/12	\$ 1,000,000		\$ 1,000,000		\$ 300,000
10/01/13	\$ 1,000,000		\$ 1,000,000		\$ 400,000
Total	\$ 5,000,000	\$ 1,000,000	\$ 5,000,000	\$ 1,000,000	

(1) Actual endowment distribution is currently based on 5% of a three-year moving market average of the share value of the University's pooled endowment fund. The annual distribution will be in accordance with the then current Investment Policy.

*MBRF Contribution and UAB Match will be made October 1st of the year noted.

OPERATIONS EXPENDITURES⁽²⁾

Year	Pilot Projects	Cores	Recruitments ⁽³⁾	
2009	\$ 70,000	\$ 30,000	\$ 600,000	(4)
2010	\$ 70,000	\$ 30,000	\$ 600,000	(4)
2011	\$ 70,000	\$ 30,000		
2012	\$ 70,000	\$ 30,000	\$ 200,000	
2013	\$ 70,000	\$ 30,000		
Total	\$350,000	\$150,000	\$1,500,000	

(2) Starting in 2014 and onward, plans are to continue funding collaborative pilot projects, cores, and one recruit/replacement faculty member per year.

(3) All recruits are anticipated to be joint recruits with clinical departments and other UAB Centers, allowing three- to four-fold leveraging of MBRF funds;

(4) In 2009 and 2010, plans are to recruit two individuals. Funds will be split evenly between the two positions.

EXPENDABLE MATCHING SUM EQUIVALENT OPTION:

In the event that in a given year UAB does not provide the \$1 Million Endowment Match, UAB will provide a distribution from other sources equal to the endowment distribution that would have been generated (the "Expendable Matching Sum Equivalent") from the \$1 Million Endowment Match for said year. In this fashion the operational budget of the UAB-MBI will not be deleteriously affected by any delays in generating the Match. Likewise, MBRF may, in any given year, in lieu of funding the Endowment, provide to the UAB-MBI an amount equal to the endowment distribution that would have been generated from the endowment addition for said year.

Schedule 6.1

University Investment Policy and Guidelines

Statement of Investment Policy and Guidelines

I. Statement of Purpose

The purpose of this Investment Policy Statement is to assist The Board of Trustees of The University of Alabama ("Board of Trustees") in effectively supervising and monitoring the investment activities of The University of Alabama System ("System") and to provide guidance to investment managers employed to manage assets on its behalf. This Statement represents the current investment philosophy consensus of the Board of Trustees and shall be reviewed from time-to-time to ensure that it continues to reflect the appropriate expectations, goals and objectives for the different funds managed by the Board of Trustees.

II. Definition of Responsibilities

The Board of Trustees has delegated to the Investment Committee responsibility for recommending investment objectives, broad asset allocation changes, policies and practices to the Board of Trustees. The Investment Committee is responsible for overseeing investment activities and performance; for ensuring the proper control and safekeeping of the investment funds; for making changes within the broad asset allocation guidelines; and for the selection of external money managers, custodians, and such consultants as are necessary to properly manage these funds.

The Board of Trustees has granted to the Chancellor, through the Vice Chancellor for Financial Affairs, with the prior approval, transaction authority for the purchase, sale, assignment, transfer, and management of all investments of any kind or character of the System or any component thereof. The Board of Trustees has authorized the Chancellor, through the Vice Chancellor for Financial Affairs, to execute on behalf of the Board of Trustees, any and all documents required in the purchase, sale, assignment, transfer, and management of these investments and the deposit, withdrawal, or transfer of assets on behalf of the System components.

The Investment Officer reports to the Vice Chancellor for Financial Affairs and is charged with implementing and administering the Investment Policy. The Investment Officer's goal is to assist in the attainment of stated financial investment objectives while complying with all Policy guidelines and directives. The Investment Officer serves as the initial contact with the Investment Committee, consultants, money managers, and custodians in such matters. All legal contracts, financial statements, K-1's, capital calls, and contributions will flow through the Office of the Vice Chancellor for Financial Affairs. In setting the agendas for the Investment Committee, the Investment Officer will have all items reviewed by the Chancellor, through the Vice Chancellor for Financial Affairs, and the Chairman of the Investment Committee or President pro tempore.

The investment consultant's primary responsibility is to provide independent and unbiased information to the Board of Trustees. The consultant is to assist in the development of the Investment Policy Statement and to monitor the manager's compliance with the Statement. The consultant will assist in the development of strategic asset allocation targets and in the development of performance measurement standards. He or she will monitor and evaluate manager performance on an ongoing basis and perform due diligence when a manager fails to meet a standard. The investment consultant will conduct manager searches when needed and perform due diligence on new managers. The investment consultant will inform the System of any known conflicts of interest that may exist or develop over time. The investment consultant will be paid in hard dollars.

Investment managers appointed by the Board of Trustees to execute the policy will invest System assets in accordance with established guidelines but will apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within established guidelines and policy limits, to select individual investments and diversify their portfolios.

III. Manager Selection

The manager selection process should incorporate review and analysis of the following factors:

- A. Ability of the firm to meet endowment objectives.
- B. Length and quality of experience of key investment professionals.
- C. Long-term track record evaluated on both a risk and return basis.
- D. Consistency of investment strategy and results.
- E. Historical growth of, and future plans for, assets under management.
- F. Confidence that past track record can be repeated in the future.
- G. Existence of a clear, concise and effective decision-making system.
- H. Risk management efforts.
- I. Sufficient organizational depth and continuity of personnel.
- J. Adequate reporting, administration and back-office support.

IV. Monitor and Evaluate Investment Managers

The investment results of each investment manager are evaluated on a quarterly basis and compared to the appropriate market benchmarks and against other managers with a similar investment style. Results are compiled by the investment consultant and reported

to the Investment Committee. The System strives to retain investment managers who consistently outperform their assigned market benchmark, and have provided results in the top half of managers with a similar investment styles.

V. Investment Valuation Policy

The underlying principle of performance monitoring is the ability to accurately measure the value of the investments. General guidelines for valuing and reporting on investments are contained in Statement No. 31 of the Governmental Accounting Standards Board (GASB). The System Office shall ensure that all University investments are valued in accordance with Statement No. 31. Fair value shall be used to measure performance and may be determined from sources in this order:

- A. The custodian of investment securities who purchases market pricing quotation.
- B. Closing prices reported in trade publications, e.g., the Wall Street Journal.
- C. Internet sites for SEC-regulated mutual funds.
- D. Estimates of market values using prices of comparable securities, e.g., matrix pricing.
- E. Reasonable estimates based on professional judgment.

VI. Indexing

It is generally accepted that the large-cap sector of the U.S. equity market is very efficient, allowing an indexed approach to investing to produce greater returns at less cost than active managers as a group. Individual active managers, particularly in mid- and small-cap U.S. equities, can produce value-added over an indexed approach. Based upon the above factors, the Investment Committee believes that it is prudent to index a majority of large-cap U.S. equities and use active strategies for mid- and small-cap U.S. equities.

There is also a compelling case for indexing U.S. investment grade bonds, an extremely efficient market. Therefore, the Investment Committee chooses to index a portion of its investment grade U.S. bond holdings. Active investment grade U.S. bond managers will be required to maintain the duration of the U.S. bond portfolio within one-half (1/2) year of the duration of the assigned index unless specific permission is obtained from the Investment Committee.

At this time, there does not appear to be a compelling rationale for indexing significant portions of other markets or asset classes.

VII. Use of Pooled Funds

Investments in pooled funds (e.g., mutual funds and common trust funds) are permitted, provided that their investment guidelines generally are consistent with Endowment investment policies and guidelines. Security lending is allowed in pooled funds.

VIII. Use of Alternative Assets

A. Private Capital – Private capital investments include the illiquid debt and equity securities of private and publicly traded companies. These investments are held in the form of professionally managed pooled investments and must be made through funds offered by professional investment managers with proven records of superior performance over time. Emphasis is made on the credentials and the track record of the professionals involved. These investments consist of two sub-asset class categories: Venture Capital and Private Equity.

1. Venture Capital – Venture Capital investments consist of private investments in companies, both U.S. and non-U.S., during the early stages of development.

2. Private Equity – Private Equity investments consist of investments in the equity securities of private businesses, both U.S. and non-U.S., that are considered to be in the post start-up phase and that are profitable and generating income. The classification of private equity also includes mezzanine and opportunistic investments. Mezzanine consists of illiquid investments in funds that make subordinated debt or minority equity investments in private companies. Opportunistic investments are limited to illiquid assets and may include distressed debt or secondary private equity partnerships.

3. Investment Characteristics of Venture Capital and Private Equity

a. Illiquidity of the Investment – Venture Capital and Private Equity investments are illiquid investments. Typically investments made in this asset class have a 10-12 year time horizon. In order to maximize the benefit of these investments and to minimize the effects of some poor returning vintage years, investments are to be made in different strategies across different class years.

b. High Risk and Return Profile – Venture Capital and Private Equity have the potential to achieve superior performance relative to other equity markets over long periods of time because of the illiquidity premium of these investments. These illiquidity premiums do fluctuate over time. The annualized return differences between top and bottom quartiles for these managers is high, so it is important to invest in good managers to compensate for the added risk of these investments.

- c. Committed vs. Invested Capital – Generally, Venture Capital and Private Equity funds need 4-6 years to fully invest the capital that has been committed by investors. Also, during normal market periods, around the third or fourth year, many fund managers begin to make distributions from successful earlier investments. The result of these two factors is that investor's committed funds are rarely 100% invested at any time. Therefore, for planning purposes the System may commit up to 50% more than the strategic allocation in order to stay as close as possible to the strategic invested target allocation.
 - d. J-Curve Effect – Because Venture Capital and Private Equity funds charge management fees on committed vs. invested capital the early returns from these funds typically have a negative return until some of the early investments are sold, typically in the third or fourth year. Carried interest does not accrue until all the original investment has been returned plus some level of preferred return.
- B. Hedge Funds – Hedge funds are broadly defined to include nontraditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable. The role of hedge funds in a portfolio is to enhance the long-term total return and provide greater diversification. Investments in hedge funds generally will be made through multi-strategy funds or fund-of-funds investments to diversify the manager risks associated with this strategy. Individual strategy hedge funds can be owned by the fund up to one percent of the total market value of the fund or ten percent of the hedge fund allocation, whichever is less. Hedge fund investments shall be held in the form of professionally managed pooled investments or offshore corporations in tax exempt jurisdictions. Only low risk strategies not correlated with other asset classes will be used for investment.
- 1. Equity Hedge Funds – Equity hedge fund investments include U.S. and non-U.S. long/short equity strategies. These strategies attempt to exploit profits from stock selection skills by taking long and short positions in various equity securities.
 - 2. Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage and event-driven strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event-driven strategies attempt to exploit discreet events such as bankruptcies, mergers and takeovers.
- C. Real Estate – Investments may also include equity real estate, held in the form of professionally managed, income producing commercial and residential property. Such investment may be made only through professionally managed pooled limited partnerships or real estate investment trusts (REITS), as offered by leading

real estate managers with proven records of superior performance over time. Emphasis will be made on the credentials and the track record of the professionals involved.

1. Gifts of real estate will be held at the individual campuses as separately managed assets until liquidated. Unless the real estate has strategic long term importance to the campuses or can be managed alongside existing land, timber, and mineral holdings for investment purposes, it should be liquidated as quickly as practical. Once the real estate is liquidated the funds will be invested in the appropriate System fund.
 2. Each campus will present an update on non-campus land and natural resources held for investment, annually, at a joint Investment/Physical Properties meeting.
- D. Commodities – Natural resource investments which include oil and gas interests, commodities and other hard assets such as timber.

IX. Derivative Securities

For the purposes of this policy, a derivative instrument is defined as any contract or investment instrument whose performance, risk characteristics or value is based on any asset, interest rate or index value.

Derivatives are permitted to be used for the following purposes:

- A. To gain broad stock or bond market exposure in a manner that does not create the effect of leverage in the overall portfolio.
- B. To convert financial exposure in a given currency to that of another currency (e.g., to hedge Japanese Yen exposure back to the U.S. Dollar).
- C. To adjust the duration of a bond portfolio in a manner that is consistent with the accepted approach of the manager and other policies and guidelines provided to the manager.
- D. To make other portfolio adjustments that are consistent with other elements of the System's investment policies and guidelines and that, when viewed from a total portfolio standpoint, do not increase risk or expected volatility of rate-of-return in the portfolio.
- E. To swap interest rates from variable to fixed and vice versa.
- F. To hedge a future distribution or effective interest in a future distribution from a limited partnership investment in a manner that does not expose the portfolio to unlimited risk.

All other uses of derivatives within the UAS Investment Pools are prohibited unless specifically approved by the Investment Committee.

Investment managers are expected to have internal risk management programs in place to ensure that derivative-based strategies do not result in magnified risks to the portfolio.

X. Currency Hedging

Over various time periods, a hedged strategy of the international arena will alternately outperform and then under-perform an un-hedged strategy. Over the very long term, returns from either strategy are expected to be roughly the same. Based on the above assumption, the Investment Committee chooses to give discretion to the International Equity Managers regarding currency hedging.

XI. Security Lending

The System may participate in a securities lending contract with a bank or non-bank security lending agent for either short-term or long-term purposes of realizing additional income. Loans of the securities by the System shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 102% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, and acceptable investment of collateral.

XII. Directed Brokerage Commissions

It is a policy of the Investment Committee of the Board of Trustees to not direct brokerage commissions to avoid potential conflicts of interest and to assure best execution. The only exception would be to use a transition manager, as recommended by the investment consultant, to minimize the transaction costs when switching investments between two managers or rebalancing the portfolio.

XIII. Tax Considerations

Although the System is a tax-exempt organization, it may be subject to tax related to Unrelated Business Taxable Income (UBTI) or Unrelated Business Debt (UBD). To minimize the taxable consequences to the System, efforts should be made to choose the investment structure and geographic location most beneficial to the System, taking into account tax ramifications and potential fee differences related to different investment structures.

XIV. Reporting

The System Office reports on the investments and performance of the working capital pools monthly to the Investment Committee of the Board of Trustees, the Chancellor, and the Campus Presidents in writing. Quarterly, the Investment Consultant will make a presentation to the Investment Committee and show performance relative to benchmark and other institutions running funds with similar guidelines.

Investment Policy for System Reserves

The System Office, with the guidance and advice of the campuses and hospital financial officers, is charged with developing and implementing an investment strategy that is consistent with matching the duration of each campus's reserves with their projected needs. Because the reserves also serve as collateral for each institution's debt, care is taken to make sure that investment risk levels are appropriate for the financial condition of each individual campus. It is the responsibility of the System Office to insure that cash is available to meet the liquidity needs of the campuses and the hospital.

Reserves are to be invested in System-managed pooled funds except for certain monies which are not eligible or appropriate for inclusion in these funds, such as endowment assets, life and annuity trusts, and proceeds from bond issues.

All System reserves are to be managed in one of three pooled funds depending on the time horizon of the reserves:

- A. UAS Prime Investment Fund – Long-term working capital (7-10+years)
- B. UAS Intermediate Fund – Intermediate working capital (2-6 years)
- C. UAS Short-Term Fund – (0-1 year)

I. System Reserves Investment Funds

- A. The System reserves are managed in these three categories to be consistent with liquidity requirements and the duration of the investments.

1. UAS Short-Term Fund

The UAS Short-Term Fund contains all the short-term reserves of the System. Because of the different income and disbursement streams at each institution, consolidation of funds reduces daily cash fluctuations in the System, and minimizes the amount of short-term reserves needed. Assets held in the UAS Short-Term Fund are invested with the primary objectives of stability of principal and liquidity. Such investments are restricted to high-quality, liquid, money market funds and other fixed income obligations with a maturity of one year or less. The determination of the amount of assets held in this segment is based on forecast expected cash inflows and disbursements and an examination of historical data from the most recent three fiscal years. A \$50 million line of credit allows the UAS Short-Term Fund to maintain a minimal amount of assets to cover the projected fluctuations in cash during the course of the year. All income is distributed to the institutions on a monthly basis.

2. UAS Intermediate Fund

The UAS Intermediate Fund serves as a buffer for the daily reserve funds - a means of paying off draws on the line-of-credit, a source of funds to meet projected reserve needs over the next 2-6 years, and as a contingency fund to cover unplanned expenditures and shortfalls in income. This fund is also used to balance the other funds when looking at the institution's entire asset allocation of reserves relative to its investment objectives. The UAS Intermediate Fund has an investment objective of income with preservation of capital and is invested in intermediate term "investment grade" fixed income securities. At least one of the investment managers must be a large mutual fund providing daily liquidity. All income is distributed to the institutions on a monthly basis.

3. UAS Prime Investment Fund

The UAS Prime Investment Fund is a long-term reserve fund to cover the needs of the institutions over a period of 7-10+ years. This fund has an investment objective of growth with income and is invested in a diversified asset mix of liquid or semi-liquid securities. Long-term lockup funds with illiquid assets are inappropriate investments for this fund. The UAS Prime Investment Fund, where possible, uses the same investment managers as the Pooled Endowment Fund to reduce fees. This fund distributes a spending rate to the reserve holders in the amount of 4% of a 36-month moving average of unit market values. The spending rate is distributed quarterly.

The Investment Committee shall establish and periodically review asset allocation targets and ranges, investment objectives and policies, and make changes in investment managers to reflect changes in market conditions, asset class valuations or investment manager performance.

B. Allocation of Reserves Among Investment Funds

The allocation of reserves among the Prime Investment, Intermediate and Short-term funds allows for each campus and the hospital to have their own asset allocation. The allocations should take into account each institution's funding needs, debt ratings, reserve growth/decline projections and any other special circumstances. In the case of the UA Hospital, peer asset allocation is also considered. The amount held in the short-term fund shall be minimized to cover actual cash needs plus any large extraordinary one time approved expenditures. The remaining reserves will be invested in the Prime Investment and Intermediate funds. Equity exposure will be the determining factor in allocating reserves between the Prime Investment and Intermediate funds. The target equity exposure for each campus and the hospital are set by the Investment Committee with input from the investment officer, the investment consultant, and the campus and hospital financial officers. It is the responsibility of the System Office to allocate

reserves between the funds for each campus and the hospital according to the targets established by the Investment Committee. Below are the current equity exposure targets established by the Investment Committee.

Investment Policy for Endowment Funds

I. Investment Objectives

The purpose of the Endowment is to support the UA System campuses and hospital and their missions over the long-term. Accordingly, the primary investment objectives of the Endowment are to:

- A. Preserve the real purchasing power of the principal.
- B. Provide a stable source of perpetual financial support to Endowment beneficiaries.

In order to preserve the real purchasing power of the principal and to provide a stable source of income to the beneficiaries of the Endowment, the long-term annualized total rate of return objective for the Endowment will be targeted at inflation as defined by the Consumer Price Index (CPI) plus the Endowment spending rate plus all fees and expenses. To satisfy its long-term rate of return objective, the Endowment relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and from natural income (interest, dividends and rents). Asset allocation guidelines and the investment manager structure should be established to meet the target return while providing adequate diversification in order to minimize the volatility of investments returns.

II. Endowment Spending Policy

The Board of Trustees shall attempt to balance the long-term objective of maintaining the purchasing power of the Endowment with the goal of providing a reasonable, predictable, stable and sustainable level of income to support current objectives. To achieve this goal the Board of Trustees has established a base spending rate of 5% of the trailing 36-months moving average of unit market values and is established yearly as of December 31 for the following fiscal year. This spending policy is to be reviewed annually by the Investment Committee.

In determining whether it is appropriate to make distributions, the System will comply with Section 4 of the Uniform Prudent Management of Institutional Funds Act, as adopted by the State of Alabama and codified at Code of Alabama, 19-3C-1, et seq.

III. Target Asset Allocation

To achieve its investment objectives, the Endowment shall be allocated among a number of asset classes. These asset classes may include: domestic equity, domestic and international fixed income, international equity, real estate, commodities, hedge funds, private equity and venture capital. The purpose of allocating among asset classes is to

ensure the proper level of diversification within the Endowment. Analyses of historical and expected capital market returns show that a substantial weighting in higher returning asset classes consisting of equity and equity-like investments is necessary for the Endowment to achieve its return objective of inflation plus fees plus 5%. Other asset classes such as hedge funds and bonds serve to provide additional diversification to the overall portfolio. Illiquid alternative assets also play a role in the asset allocation to the extent that they provide excess returns and diversification to traditional assets.

The Investment Committee shall establish and periodically review asset allocation targets and ranges, investment objectives and policies, and make changes in investment managers to reflect changes in market conditions, asset class valuations or investment manager performance.

IV. Separately Invested Endowments

There are a few endowment funds that are separately invested because the gift is restricted or non-marketable. To the extent allowed by the Endowment documents, separately managed endowments are to be invested to emulate the endowment pool investment program adopted by the Board of Trustees using traditional asset classes. Each separately invested Endowment fund is to be reviewed periodically to determine if it may be included in the Endowment pool.

The Investment Committee shall establish target allocations, by asset class, for separately managed funds. These target allocations shall be reviewed periodically and revised, when necessary by the Investment Committee.

As a general rule, securities received as gifts will be sold on receipt and the proceeds added to the pooled fund, unless the endowment documents require separate management, in which case the proceeds will be allocated to the investment managers. In those cases where the Investment Committee decides not to sell securities received as a gift, those securities will not be commingled with the rest of the endowment but will be accounted for separately until sold.

Investment returns on separately invested endowments will be compared with the following:

- A. A weighted average of the returns of broad market indices representing the asset classes in the target asset allocation in the investment policy for the endowment pool established by the Board of Trustees.
- B. Returns of a universe of funds with similar policies.

V. Life Income and Annuity Funds Investments

The Board assigns to campus Presidents the responsibility for direct investment and administration of Life Income and Annuity Funds. Investments are to be made in accordance with payout agreements determined at the time of initiation, subject to investment criteria for Endowment Funds, as described above. With the approval of The

Board of Trustees, external investment advisors may be retained to manage certain Life Income and Annuity Funds. Upon the death of the respective beneficiaries, the principal becomes available to the University for the purposes described in each individual trust conveyance; investment of such funds will then be determined by applicable Funds Investment Policy.

The Investment Committee shall periodically review the investment of these funds to ensure that the Committee's investment objectives are being met and shall advise the campus Presidents and the Board of their findings.

Responsibilities of the Investment Managers

I. General Duties and Responsibilities of the Investment Managers

- A. Invest the assets of the System's Endowment Fund and working capital with the care, skill, prudence and diligence that a prudent professional investment manager, familiar with such matters and acting in like capacity, would use in the investment of such assets, consistent with guidelines outlined herein.
- B. Adhere to the investment policies and guidelines prescribed by the System and act in the best interest of the System.
- C. Make no material departures from the strategy for which the manager was hired.
- D. Inform the Investment Officer and the Investment Consultant regarding all significant matters pertaining to the investment of its assets. These matters include:
 - 1. Substantive changes in investment strategy or portfolio structure.
 - 2. Significant changes in the ownership, affiliations, organizational structure, financial condition and professional staffing of the investment management organization.
 - 3. Any regulatory actions being pursued or taken against the firm or any of its employees.
- E. All investment managers of liquid securities must report their performance in writing each month.
 - 1. Limited partnerships must report performance at least every calendar quarter.
 - 2. Performance calculations must be in compliance with CFA Institute standards, or managers must explicitly note that performance figures are not in compliance and provide an explanation thereof.

3. Managers are required to provide a list of portfolio holdings at least quarterly (hedge funds are exempt from this requirement) and a commentary on the investment results and future outlook.
- F. Comply with CFA Institute Guidelines on Soft Dollar Standards.
 - G. Vote all proxies after careful assessment of the issues involved, paying particular attention to items that may reduce the economic value of stockholders' rights of ownership and thereby impact adversely the performance of the System's assets.
 - H. Meet with the Investment Officer and Investment Consultant on a regular basis.
 1. The Investment Committee expects to meet with the investment managers on a periodic basis whether in person or by video conference.
 2. During such meetings, the managers will be expected to explain their current investment strategies and the rationale for them, and comment on performance.
 - I. Establish and maintain an effective relationship with the custodian of the System, including making vigorous efforts to reconcile any performance discrepancies.
 - J. Traditional Asset Investment Managers are prohibited from buying securities on margin, borrowing money or pledging assets, or trading uncovered Options, commodities or currencies without the advance written approval of the Endowment Fund.
 1. The managers are also restricted from investing in private placements and restricted stock (excluding 144A securities) unless otherwise permitted in writing by the Endowment.
 2. 144A securities are permissible investments and are limited to a maximum of 10 percent of the portfolio. 144A securities are also subject to other restrictions listed in the "Responsibilities of the Investment Managers."
 3. It is expected that no assets purchased by traditional asset managers will be invested in securities whose issuers are or are reasonably expected to become insolvent, or who otherwise have filed a petition under any state or federal bankruptcy or similar statute.
 - K. The investment manager shall not purchase any securities of its organization or affiliated entities, unless it is part of a passive index in which the System chooses to invest.
 - L. The portfolio's performance should rank in the top 50% of a universe of comparable managers after fees.

II. Manager Benchmarks

- A. Benchmarks will be established for individual managers that most closely reflect the strategy pursued or securities purchased by that manager.
- B. The appropriateness of the assigned benchmark should be agreed upon by the consultant, staff and the manager in advance of hiring and, where possible, explicitly included in the written agreement.
- C. The performance of the managers will also be compared to peer managers following similar strategies on both a risk-and-return basis.

III. Mutual and Commingled Funds Portfolios

- A. Where mutual or commingled funds are used, it is expected that the portfolios generally conform to these guidelines, though the Investment Committee recognizes the prospectus or guidelines of the fund supersede those of the System.
- B. On a periodic basis, the investment managers of mutual or commingled funds will review the guidelines of the commingled funds and the guidelines set forth below.
- C. If the portfolios of the funds differ from the below referenced standards in any material respect, the Investment Manager will notify the Investment Officer and the Investment Consultant in regular quarterly reports.

IV. U.S. Equity Portfolios

- A. Equity holdings in any single company including common stock and convertible securities must not exceed 10% of the manager's portfolio measured at market value.
- B. A minimum of 14 individual stocks should be held within the equity segment of the portfolio.
- C. Equity holdings should represent at least 90% of the portfolio at all times.
- D. Equity holdings in any one industry (as defined by the Global Industry Classification Standard) should not exceed 40% of the portfolio.
- E. Marketable common stocks, preferred stocks convertible into common stocks, S&P 500 futures contracts and fixed income securities convertible into common stocks are the only permissible equity investments.
- F. Securities of foreign (non-U.S.) entities denominated in U.S. dollars are limited to 20% of the manager's portfolio measured at market value. Securities denominated in currencies other than the U.S. dollars are not permissible investments.

- G. For securities bought or held for the portfolio of the System, the Investment Manager should consider not only the System's portion but the aggregate holdings among all the manager's accounts in assessing the amount of liquidity and the impact on the security's price.

V. International Equity Portfolios

- A. Equity holdings in a single company (including common stock and convertible securities) should not exceed 8% of the manager's portfolio measured at market value.
- B. A minimum of 30 individual stocks should be held.
- C. Equity holdings in any one industry (as defined by the Global Industry Classification Standard) should not exceed 25% of the manager's portfolio measured at market value.
- D. A minimum of 50% of the countries within the EAFE Index should be represented within the portfolio.
 - 1. The allocation to an individual country should be limited to the lesser of 34% or 4 times the country's weighting within the EAFE Index.
 - 2. Where allocations to non-EAFE countries are used, they should not exceed 5% of the portfolio on an individual basis or 20% in combination.
- E. Currency hedging decisions are at the discretion of the investment manager.

VI. Fixed Income Portfolios

- A. The duration of the fixed income portfolio should be targeted to that of the Lehman Aggregate Bond Index ("LAGG") for the Pooled Endowment and Prime Investment Funds and may range from +/-1 year of the duration of the LAGG.
- B. The duration of the Intermediate Fund should be targeted to an intermediate term fixed income index selected by the Investment Committee and may range from +/-0.5 years of the duration of the index.
- C. Fixed income holdings in a single entity (excluding obligations of the United States Government and its agencies) should be limited to 5% of the manager's portfolio measured at market value.
- D. Fixed Income holdings in any one industry (as defined by the Global Industry Classification Standard) should not exceed 15% of the manager's portfolio measured at market value.
- E. With the exception of multi-strategy bond funds, at least 95% of fixed income investments should be limited to "investment grade" securities, e.g., securities

with ratings of BBB- (Standard & Poor's) or Baa3 (Moody's) or higher or unrated securities which the investment manager deems to be investment grade.

1. Unrated securities of the U.S. Treasury and Government agencies are permissible investments.
 2. Securities that fall below investment grade may be held for up to one year, based upon the credit and liquidity considerations associated with the issue.
 3. Multi-strategy fixed income managers may have up to 20% of the investments in non-investment grade securities or private placements.
- F. Securities of foreign (non-U.S.) entities denominated in U.S. dollars are limited to 10% of the manager's portfolio, measured at market value except for accounts with a non-US or Global fixed income mandate.
- G. Securities denominated in currencies other than U.S. dollars are not permissible investments unless part of a multi-strategy fixed income account where the limitation is 20% of the managers portfolio. This restriction does not apply to accounts with a non-US or Global fixed income mandate.
- H. Emerging market debt investments are not permissible investments unless part of a multi-strategy fixed income account or an account with an emerging market debt mandate.
- I. For securities bought or held for the portfolio of the System, the Investment Manager should consider not only the System's portion but the aggregate holdings among all the manager's accounts in assessing the amount of liquidity and the impact of the price of the security.

VII. Cash Equivalent Investments

- A. Managers generally are expected to utilize a high-quality, broadly- diversified commingled fund or other high quality vehicle made available by the custodian bank.
- B. Managers also may use alternative funds or vehicles that meet the standards of quality and diversification that would be achieved by using the custodian bank's vehicles.

VIII. Hedge, Fund-of-Fund Investments

- A. Managers should seek to diversify the assets by manager and by investment strategy.
- B. Managers should seek out strategies and managers that have proven track records of consistent long-term performance and capacity.

- C. Managers should have no less than five alternative investment managers. No single manager should represent more than 30% of the total portfolio.
- D. Managers should have no more than 40% of the fund invested in any single investment strategy.
- E. Managers should have a detailed procedure for monitoring risk. The risk controls, such as Value at Risk (VAR), and other control measures should be detailed and confirmed in writing.
- F. An independent auditing firm will audit the manager at least on an annual basis and the System Office will be provided a copy of the annual report.
- G. The manager will provide reports regarding performance on a monthly basis and an investor letter at least on a quarterly basis.
- H. The manager should perform on-site manager due diligence with its managers at least on an annual basis.
- I. The manager should have significant corporate infrastructures established so that the monitoring and implementation of the fund is not solely dependent on one individual.
- J. The manager should have errors and omissions insurance and should provide evidence of this insurance on an annual basis.

(Investment Policy and Procedures adopted May 12, 1979 as Rule 420; amended December 14, 1979, and November 19, 1980. Investment Funds Policy adopted September 16, 1981 as Rule 420; amended February 3, 1983, and January 12, 1984. Asset Management Policy adopted September 20, 1984 as Rule 420; amended December 8, 1989. Investment Management Policy adopted April 30, 1993 as Rule 420; amended October 29, 1993, and April 21, 1995. Amended and renumbered December 5, 1997 as Rule 404; amended November 19, 1999.

Investment Committee Operations adopted November 19, 1999 as Rule 416.

Investment Management Policy, Rule 404, and Investment Committee Operations, Rule 416, amended and renumbered June 17, 2005, as Board Rule 404; amended April 7, 2006, February 2, 2007, November 14, 2008, and February 6, 2009.)

Schedule 7a

University Patent Policy

This policy was approved by the Board of Trustees on February 23, 1980. (President Hill approved this revision on January 14, 1986.)

I. Purpose

In view of the far-reaching research in the various campuses of the Board of Trustees of the University of Alabama, a corporation (hereinafter referred to as University), it is inevitable that new discoveries and inventions will be made. The members of the Board of Trustees (hereinafter referred to as the Board) recognize the importance of obtaining the greatest public benefit and usefulness from the products of the University's scientific research and inventiveness, and that the protection and control provided under patent laws and other legal means for the protection of property rights may be necessary to obtain this goal. It is further recognized that employees of the University need assistance in determining and evaluating patentability and in prosecuting patent applications for or otherwise protecting inventions made by them. Furthermore, many such inventions involve equities beyond those of the inventor since the use of University facilities, the assignment of duties as a condition of employment, and the use of research Endowments with contractual obligations regarding patent rights give rise to questions concerning the rights and equities of all concerned. The purpose of this patent policy is to establish a mechanism to serve the public benefit and interest, to determine and apprise all concerned parties of relative rights and equities, to facilitate patent applications, the licensing of inventions, the equitable distribution of any royalties or other financial returns, to provide necessary uniformity in patent matters, and to provide for adequate reporting of patent activities.

II. Policy and Procedure

A. It shall be the policy of the Board to encourage the concept that patentable inventions produced at the University shall be used for the greatest possible public benefit and to provide every reasonable incentive to the faculty and staff for the disclosure, evaluation and dissemination of such inventions. When University support makes the research effort possible or when it provides support for the development of a patentable invention, it is reasonable for the University to participate in the fruits of such development, including reimbursement for its costs. To that end, the University encourages the prosecution of patents for such inventions and the licensing thereof in the interest of the public, the inventor, and the University.

B. The President of each campus shall appoint a Patent Committee which shall be responsible to the President or his designee. Each committee shall have the responsibility for recommending to the President interpretations of the University policy hereinafter stated, recommending changes in this rule as experience suggests the desirability of such changes, and recommending regulations pursuant to this rule as it deems necessary. The President shall promulgate regulations and may designate a patent administrator to administer the patent program.

C. All faculty members and University employees, as a condition of employment, both while employed by the University and thereafter, and all graduate students performing research, shall report to the patent administrator of their respective campus any invention or discovery

which they have conceived or developed or which has been conceived or developed under their direction during their University employment or enrollment.

D. Any such invention or discovery (1) which is the result of research carried on by or under the direction of any employee of the University and/or having the costs thereof paid from University Endowments or from Endowments under the control of or administered by the University, or (2) which is made by an employee of the University and which relates to the inventor's field of work at the University, or (3) which has been developed in whole or in part by the utilization of resources or facilities belonging to the University, shall be assigned to the University for the appropriate University campus. The applicability of the above stated conditions in any given case will be determined by the President of the respective campus or his designee. With the approval of the Board of Trustees or its Executive committee, the President of the campus is authorized to assign any patent to a University-designated nonprofit organization established for campus benefit, which said assignment shall be conditioned on full compliance with this policy, regulations promulgated thereunder, and appropriate state and federal law.

E. Each invention or discovery reported shall first be investigated in order to determine whether it must be assigned to the University under the standards set forth in Section II D hereinabove. If the invention or discovery is one which must be assigned, it shall be further investigated to determine whether the University desires to apply for a patent on it in the name of the inventor. In making this determination, the benefits that might accrue to both the University and the inventor shall be considered. The patent administrator shall act promptly in carrying out these duties so that the property rights of the inventor and the University may be protected. Upon expert advice, however, the patent administrator may request further development of the invention before final action. If it is determined that the invention or discovery is not assignable or, if assignable, is one in which the University has no interest, a release shall be executed by the campus patent administrator in favor of the inventor. In event of assignment, the University shall undertake to develop and protect the invention as it deems appropriate.

F. As further consideration for the assignment rights set forth herein, the Presidents or their designees on the inventors' campuses are authorized to enter into an agreement with the inventor to pay to the inventors, their heirs or assigns, the following percentage of the royalties, fees, or other financial returns received by the University from such invention after a deduction of fifteen percent (15%) thereof for overhead costs, plus a deduction for costs of patenting and protection of patent rights. The percentage paid to the inventor is seventy-five percent (75%) of accumulated royalties of twenty thousand dollars (\$20,000) or less; fifty percent (50%) of accumulated royalties of one hundred thousand dollars (\$100,000) or less, but greater than twenty-thousand dollars (\$20,000) and thirty percent (30%) of accumulated royalties greater than one hundred thousand dollars (\$100,000), payment to be made quarterly. Recoupment of any unusual expenses paid by the campus or the inventor may be included in the agreement. The agreement may also be subject to specific conditions contained in institutional contracts such as that with Research Corporation or the DHHS (formerly DHEW) Institutional Agreement. Any patent assignment to a University related foundation shall be made subject to the conditions of this policy. Each campus President shall be responsible for the development of a policy on internal distribution of the University's share of the royalties and distribution shall be reflected in the budget. In the event of intercampus participation leading to a patent, the Chancellor will appoint appropriate committees with representatives from each participating campus to make

recommendations and will then determine any appropriate equities arising from said intercampus participation.

G. It is understood that many research contracts, grants and consulting agreement from or with the United States Government or its agencies, from or with corporation, or from or with individuals contain patent clauses which must be complied with. Such documents which are at variance with this policy may be referred to the appropriate Patent Committee for recommendations prior to approval. To the extent the provisions of these contracts, grants and agreements require, the campuses shall administer such patents to provide nonexclusive licensing or on a royalty-free or on a reasonable royalty basis.

H. Annual reports of patent matters will be made to the Chancellor for his information and that of the Board of Trustees within thirty days following the end of each fiscal year. The Chancellor may prescribe appropriate formats for such reporting.

(Adopted February 23, 1980; Amended September 16, 1981; February 27, 1986)

Schedule 7b

Commercial Licensing Revenue Distribution Guidelines

License revenues received are distributed quarterly according to the following guidelines, which are based on the University Patent Policy and Rule 509 of The Board of Trustees of The University of Alabama.

By Board policy, fifteen percent (15%) of the gross license revenues are retained by the University's Office of Intellectual Property Management (OIPM) to cover administrative costs. Any expenses incurred patenting the intellectual property are reimbursed to the OIPM.

Board policy authorizes each campus President to determine the distribution of remaining (net) license revenues. By University policy, for each license agreement:

- The first \$20,000 net revenue is shared—75% to the innovator and 25% to the department or center.
- The next \$80,000 net revenue (from \$20,000 to \$100,000 total) is shared—50% to the innovator, 25% to the department or center, and 25% to the school.
- Further net revenue (above \$100,000 total) are shared—30% to the innovator, 25% to the department or center, 25% to the school, and 20% to the University Research Account, a discretionary research Endowment administered by the Office of the Provost.
- If there are multiple innovators involved, the distributed Endowments are allocated to the innovators, departments, and schools according to the Revenue Distribution Agreement submitted and signed at the time of disclosure.
- Quarterly distributions are made within 30 days of the end of each fiscal quarter. University innovators are paid by check. Departments and schools are paid by transfer between University accounts.

Schedule 9.1

The Evelyn F. McKnight Brain Institute at UAB

The Purpose of the Evelyn F. McKnight Brain Institute at UAB ("Institute") is to promote research and investigation of the brain in the fundamental mechanisms that underlie the neurobiology for memory and cognitive changes that occur during the process of aging principally intended for clinical application, to accomplish the alleviations of age related memory loss. The Institute will strive to develop the tools necessary to understand the neural basis for cognitive changes that occur during the process of normal aging, using appropriate animal-models as well as humans, and to implement these tools in well-designed studies that will characterize the nature of brain changes during normal aging and distinguish such normal changes in memory from those that reflect pathological conditions. Understanding normal aging is a prerequisite both to early detection and treatment of disease states and to the development of approaches that optimize cognitive function in healthy older persons. The Institute will create collaboration both within the University of Alabama at Birmingham ("UAB") and with other programs outside UAB whose work is similar to or complementary to the Purpose. For the strategic priorities for the future, the Institute will concentrate on the following five important objectives over the next five years :

- 1) to facilitate the translation of the basic laboratory research studies to human studies and develop the knowledge, products and processes derived from those studies for application to human health;
- 2) to enhance the established research enterprise within the Institute in areas of normal brain function, synaptic transmission and neuronal signaling and the underlying biological mechanisms of learning and memory throughout the life cycle in experimental molecular,

cellular and laboratory animal model systems, through the appointment of the appropriate new investigators to the Institute;

3) to recruit and establish the laboratories of a minimum of five new additional faculty members into the Institute whose primary research expertise is in scientific areas directly related to the biological basis of learning and memory with respect to the normal aging balance in recruitment between promising young investigators and senior scientists or physician-scientists who are internationally recognized for their contributions in the area of age-related memory loss;

4) to develop a new pilot grants program focusing on highly innovative studies pursued jointly by two or more investigators based in different McKnight Institutes or, centers, allowing the leveraging of expertise across geographically distinct Institutes;

5) to establish a net \$10 million Endowment jointly by the McKnight Brain Research Foundation and UAB, to support the Institute and establish its purpose and function in perpetuity.

Schedule 9.2

The Evelyn F. McKnight Endowed Chair for Learning and Memory in Aging

The Evelyn F. McKnight Chair for Learning and Memory in Aging will serve as Director of the Evelyn F. McKnight Brain Institute at the University of Alabama at Birmingham. The Chair will establish a research program that furthers the Purpose of the Chair. The initial person appointed to the Chair will be J. David Sweatt, Ph.D.

The Chair will ensure that the highest quality research projects are supported, aimed at an understanding of normal brain aging and its impact on cognition and memory, consistent with the Purpose. In addition, the Chair will facilitate interactions among those scientists who can interact synergistically to develop novel approaches to understanding the neural mechanisms of memory loss in aging and potential therapeutic interventional strategies.

Schedule 9.1.5.3

Annual Report

**McKnight Brain Research Foundation
Sponsored Institutes and Research Programs
(Include activity of all McKnight supported faculty and trainees)
Report Period: _____**

Some gift agreements require both Institute reports and Chair reports. If applicable, please clearly state whether a particular response relates to a Chair or Institute.

Any capitalized terms used on the template are intended to have the same meaning as the term is defined in the Gift Agreement.

1. Summary of scientific achievements since last report
2. Publications in peer reviewed journals
3. Publications (other)
4. Presentations at scientific meetings
5. Presentations at public (non-scientific) meetings or events
6. Awards (other)
7. Faculty. Please include abbreviated CV with publications for previous 12 months
8. Trainees
 - a. Post doctoral
 - b. Pre-doctoral
 - c. Other
9. Clinical/translational programs
 - a. New programs
 - b. Update on existing clinical studies
10. Technology transfer
 - a. Patents applications
 - b. Revenue generated from technology
11. Budget update (last year's budget and actual results - with an explanation of material variances)
 - a. Status of matching funds, if applicable
 - b. Projected budget for coming year
 - c. Extramural funding

Schedule 9.1.5.3 (continued)

**Annual Report
McKnight Brain Research Foundation**

12. Educational programs focusing on age related memory loss
 - a. Scientific
 - b. Public
13. Collaborative programs with other McKnight Institutes, institutions and research programs
14. Collaborative program with non McKnight Institutes, institutions and research programs
15. Briefly describe plans for future research and/or clinical initiatives
16. If applicable, please provide endowment investment results for the report period.
17. Where any funds used for a Prohibited Purpose during the report period?
18. Do you recommend any modification to the Purpose or mandates in the Gift Agreement?
19. Did all activities during the report period further the Purpose?
20. Please describe any negative events (loss of personnel, space, budget, etc.) that occurred during the report period and the possible impact on carrying out the Gift Agreement.
21. Please provide any general comments or thoughts not covered elsewhere – a response is not required. Please respond only if you would like to add something not otherwise covered elsewhere.
22. Signature, date, and title of person submitting the report.