

MINUTES
MCKNIGHT BRAIN RESEARCH FOUNDATION
BOARD OF TRUSTEES MEETING
April 24 & 25, 2006

April 24, 2006

The quarterly trustee's meeting of the McKnight Brain Research Foundation (MBRF) was called to order at 11:30 a.m. on April 24th in Birmingham, Alabama, in the Faculty Office Tower conference room on the campus of the University of Alabama at Birmingham.

The following members were present:

Dr. J. Lee Dockery, Trustee
Dr. Michael Dockery, Trustee
Dr. Nina Ellenbogen Raim, Trustee
Dr. John G. Clarkson, Trustee
Mrs. Teresa Borcheck, Corporate Trustee,
SunTrust Bank Endowment & Foundation Services Group

Others Attending:

Mr. Henry H. Raattama, Jr., Legal Counsel
Mr. Michael Sebesta, Managing Director, Trusco Capital Management

Guests:

Dr. Robert R. Rich, Senior Vice President and Dean, University of Alabama School of Medicine
Dr. J. David Sweatt, Evelyn F. McKnight Chair, Department of Neurobiology, and Director, Evelyn F. McKnight Brain Institute, University of Alabama School of Medicine

1. Approval of Minutes

The minutes of the February 6 and 7, 2006 Trustees meeting of the McKnight Brain Research Foundation were reviewed. The minutes were approved as amended.

Action: The Trustees approved the minutes for the February 6 and 7, 2006 Trustees meeting as amended.

2. Investment Review

In response to a request from the Trustees, Mr. Sebesta distributed a document entitled "International Equity Index Overview" (Attachment 1). The document contained a comparison between the international EAFE Index Fund and the Emerging Markets Index Fund. Mr. Sebesta discussed the information provided, including an overview of developed markets (EAFE) and emerging markets and the characteristics of each fund. He also covered the breakdown of countries included in the EAFE Index and the Emerging Markets Index. There are several reasons for choosing emerging markets equity, including decoupling from the US interest rate cycle, more diverse emerging market growth cycle and a strategic allocation that may improve portfolio efficiency. Whereas the EAFE and the US economy are tightly correlated, the emerging markets' economies are no longer as dependent on the U.S. economy. Mr. Sebesta stated that the maximum benefit would be achieved by taking an aliquot of the asset allocation for U.S, large cap and moving it into emerging markets. The risks for emerging markets are: higher volatility, political risk and their economies are highly linked to energy prices. The emerging markets have evolved and have become very liquid in comparison to prior years.

Mr. Sebesta noted that the McKnight Brain Research Foundation (MBRF) is due for a full efficient frontier analysis, and this report will be presented at the next Trustees' meeting in July. He stated that one of the expected portfolios will incorporate emerging markets, which would give the Trustees the opportunity to see the possibilities.

Mr. Sebesta presented the investment review for the first quarter (Attachment 2). He pointed out that the current Investment Policy was included in the review (page 35) of the portfolio syllabus as had been requested by the Trustees. Mr. Sebesta reviewed the performance of the portfolio since the start of the fiscal year. The current asset allocation is approximately 75% in equities, 3.5% bond funds and 21.4% in other assets which comprise of the two Lighthouse funds and REITs. The portfolio has outperformed the benchmark and all funds are showing growth, with the exception of the bond fund, which was negative for the quarter. There was a brief discussion about private equity real estate. Dr. Lee Dockery requested an update on private equity real estate at the July meeting. In covering the Purchases and Sales for the 1st quarter, Mr. Sebesta informed the Trustees that the gain shown under the Fidelity Advisor Diversified Fund, was due to the fact that they were able to obtain a much lower fee with Fidelity, saving 30 basis points. The fund remains the same as before, but the fees are much lower.

Mr. Sebesta discussed the Peer Group Analysis and the Manager vs. Universe comparison. The Trustees discussed the comparisons and Mr. Raattama questioned the statement in the investment policy that performance needs to be in the top one-third, when compared to their peers. Performance is not consistent with the existing investment policy, and Mr. Raattama opined that the investment policy should be reviewed. The Trustees were informed by Mr. Sebesta that Gregory Frasier's position had been filled by Shelly Simpson, and he shared her experience background. A full portfolio evaluation will be prepared for the July meeting, and Mr. Sebesta will request that Shelly Simpson attend that meeting, and present the efficient frontier analysis for the MBRF.

Mr. Raattama raised the question about the Lighthouse funds and the differences in the fees and taxes between the on-shore and offshore products. Mr. Sebesta researched the issue, and based on his analysis, recommended that the MBRF continue with the on-shore fund, as this makes more sense financially. The additional investment return earned on the on-shore investment more than offsets the modest amount of taxes the Foundation paid on the Lighthouse investments. While the strategies employed by the off- and on-shore accounts are very similar, they are not exact, and therefore differences in return are possible. The Investment Policy Group at Trusco Capital Management feels that the chances of an economic slowdown have increased, and consumer confidence appears to be tapering off, but 3 to 3.5% GDP growth on average over the next few quarters can still be expected.

There were no recommendations for changes in the investment policy, asset allocation, or investment managers at this time.

Action: The Trustees received the International Equity Index Overview handout for information.

Action: Mr. Sebesta will arrange for Shelly Simpson to attend the July meeting and present the efficient frontier for the MBRF, including scenarios with Emerging Market Equity.

Action: The Trustees received the investment review for the first quarter for information.

Action: Mr. Sebesta will provide the Trustees with an update on private equity real estate at the July meeting.

Action: No changes in the investment policy, asset allocation, or investment managers were recommended at this time.

3. 990 PF Review

Mrs. Borcheck shared the pertinent pages of the first draft of the 990PF for the 2004 fiscal year ending 6/30/2005 (Attachment 3), and pointed out that the return is still in draft form, as there are still a couple of changes which need to be made. The fees do not appear to be reflective of the fund managers fees. Mrs.

Borcheck and Mr. Raattama have been reviewing the return. Mrs. Borcheck will contact KPMG to discuss the discrepancies, and will give the Trustees a completed copy once finalized.

Action: Mrs. Borcheck will contact KPMG to finalize the 990 PF for the 2004 fiscal year, and provide the Trustees with a copy, once finalized.

4. Annual Trustee Compensation Review

The Trustees discussed their compensation for the 2007 fiscal year. The Trustees reviewed the historical method of setting compensation. Ms. Borcheck and Mr. Raattama discussed their efforts to locate comparable compensation data. They reported all known resources, including Council of Foundations, Association of Small Foundations, various national consulting firms, Guidestar Nonprofit Compensation Report and similar resources had been reviewed. No comparable compensation data was identified from any source.

The Trustees discussed the average hours per week they spend on MBRF business and each confirmed it continues to be 4 to 8 hours per week.

The nature of the work has changed to emphasize the research grant support relative to the programs funded to date in fulfilling the mission of the MBRF. The increased scientific research emphasis is because the programs funded by the MBRF are increasing in number and are producing more research outcomes that the Trustees must review and monitor, and without any reduction in the time devoted to investments. The funded research projects and the consideration of new grant support include review of scientific reports for each of the MBRF funded programs and the continual general consideration of status and future direction of the research initiatives in learning and memory loss in the aging. This relates to consideration of when and what research projects or grants the MBRF should be funding to fulfill its mission.

The Trustees agreed that the \$200 per hour benchmark for Trustee compensation initially agreed to in 2000 is, although low today, certainly within the range of the hourly change that the MBRF would incur if it retained persons, either as staff or independent contractors, with the necessary scientific knowledge and experience to provide the services to the MBRF provided by the Trustees. It was noted the MBRF has not retained staff or independent contractors for any scientific purpose.

Based on the amount of time devoted to the MBRF business and comparable charges for that type of scientific work and other duties and responsibilities, the Trustees unanimously agreed that \$40,000 per Trustee is reasonable and appropriate compensation for the fiscal year beginning July 1, 2006, and ending June 30, 2007.

Action: The Trustees received the Annual Compensation Survey for information.

Action: The Trustees approved the same rate of compensation for all Trustees, in the amount of \$40,000 annually, based upon the amount of time each trustee spends on foundation business and the complexity of the duties and responsibilities of the trustees, effective 7/1/2006.

5. Presentation by UAB

Dr. David Sweatt and Dr. Robert Rich presented their report on the Evelyn F. McKnight Brain Institute at the University of Alabama at Birmingham (Attachment 5). Dr. Sweatt shared his Vision Statement with the Trustees and gave an update of their progress at the Institute. The Trustees also received the amended schedules 5.2 and 8 to the amended Gift Agreement.

Action: The Trustees received the report from the Evelyn F. McKnight Brain Institute for information.

Action: The Trustees received the amended schedules 5.2 and 8 to the amended Gift Agreement for information.

Following the presentation, the Trustees attended a ceremony to appoint Dr. J. David Sweatt, as the first holder of the Evelyn F McKnight Endowed Chair for Learning and Memory in Aging. Following the ceremony, a seminar entitled "Molecular Mechanisms of Aging-related Memory Dysfunction: New Research Initiatives at the Evelyn F. McKnight Brain Institute at UAB", was presented by Dr. J. David Sweatt. After the seminar, the Trustees attended the dedication ceremony of the Evelyn F. McKnight Brain Institute at UAB, which included the unveiling of a portrait of Mrs. McKnight. The Trustees then toured the Institute, which occupies floors, 9, 10, and 11, in the newly completed Shelby Interdisciplinary Biomedical Research Building. The day concluded with a celebration dinner at The Club for the trustees with members and guests of the UAB faculty.

April 25, 2006

The meeting of the MBRF Trustees was reconvened at 8:30 a.m. in the Shelby Building 10th floor conference room in the Evelyn F. McKnight Brain Institute on the UAB campus.

6. Discussion of UAB Presentation

The Trustees reviewed Dr. Sweatt's presentation as well as the overall visit to the University of Alabama at Birmingham. Revised schedules, 5.2 and 8, as required by the amended gift agreement were submitted by Drs. Sweatt and Rich. Mr. Raattama will determine a process defining how the revised schedules, 5.2 and 8, should be added to the Amended Gift Agreement.

Action: Mr. Raattama to determine a process defining how the revised schedules, 5.2 and 8, should be added to the Amended Gift Agreement.

7. Update on University of Arizona

Mr. Raattama presented the Trustees with a draft agreement from the University of Arizona for their review (Attachment 6). The Trustees opined the agreement should state that the chair is a permanent position at the University of Arizona. Mr. Raattama was asked to check with the university as to its policy regarding the definition of the chair and whether it was subject to a time limit and review. The Trustees also questioned the university's obligations, and the consequences if those obligations were not met. The Trustees stipulated that any money earned should remain devoted to age-related memory loss. Mr. Raattama stated it is important to clarify that collaboration occur both within the university and externally. Dr. Lee Dockery suggested that the funds distribution spreadsheet from Dr. Barnes' original proposal be inserted, as it was very specific and easily monitored. Mr. Raattama will make changes and forward a clean copy to the Trustees via e-mail, and to the relevant parties at the University of Arizona via mail.

Action: The Trustees received the draft agreement from the University of Arizona for information and made suggestions for change.

Action: Mr. Raattama to make suggested changes to the draft agreement with the University of Arizona and forward the revised draft to the Trustees and University of Arizona.

8. IRS Update

Mr. Raattama shared the news that the audit by the IRS for tax year ending June 30, 2003 had been completed, and there were no cited deficiencies. Mr. Raattama further stated that while the IRS action is not a direct approval of the Trustees' methodology for setting Trustee compensation, the IRS action is an indication the IRS does not disagree. Certainly, if the IRS disagreed with the methodology, it would have so stated and not issued the "no action" letter, dated April 13, 2006. The Trustees thanked Mr. Raattama for his assistance with the audit.

9. Minimum Distribution Requirement

Mrs. Borcheck presented a spreadsheet which she had prepared to the Trustees (Attachment 7). It showed the historical data for the minimum distribution calculations for the fiscal years 1999-2005. Mrs. Borcheck

then discussed the current fiscal year minimum distribution requirement. The excess distribution carryover for the 2005 fiscal year is \$132,620.35. The first \$1MM to the University of Arizona will most likely be funded in the 2006 fiscal year. The final University of Miami gift will be paid in 2007. The Trustees asked Mrs. Borcheck what the projection would be for funding over the next 2-3 years if the value of the portfolio increases. Mrs. Borcheck will follow up with Mr. Sebesta.

Action: The Trustees received the Minimum Distribution Calculations for information.

Action: Mrs. Borcheck to follow up with Mr. Sebesta regarding the projection for funding for the next 2-3 years, if the value of the portfolio increases.

10. New Business

Dr. Lee Dockery distributed copies of information on the National Institute on Aging (NIA) and the Foundation for the National Institutes of Health (FNIH) and reported on a recent telephone conversation with Dr. Richard Hodes, the director of the NIA. The NIA and the FNIH have partnered with private entities in the past in funding research in specific areas. Dr. Hodes has expressed interest in considering a proposal from the MBRF for match funding from the NIA or the FNIH to support research in learning and memory loss in the aging. The trustees expressed interest in the possibility of collaborative funding of a research program with the NIA and or the FNIH. Dr. Dockery was authorized to invite Dr. Hodes and others he thinks appropriate to attend to July, 2006, meeting of the MBRF to explore further the potential collaboration with the NIA and/or the FNIH in funding research in learning and memory loss in the aging.

Action: Dr. Dockery will invite Dr. Hodes and others he thinks appropriate to attend the July, 2006, meeting of the MBRF to explore further the potential collaboration with the NIA and/or the FNIH in funding research in learning and memory loss in the aging.

11. Date, Time and Location of Next Quarterly Meeting

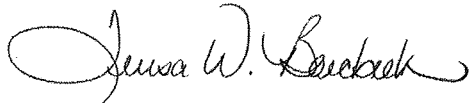
The next quarterly meeting of the MBRF will be held in Orlando on the afternoon of July 18 and all day July 19, 2006. It was decided that it would be advisable to start the meeting at 3:00 p.m. on the 18th, as the Agenda will be lengthy. The following items will be on the Agenda for the July 2006 meeting: University of Miami annual update, annual Trusco Asset Allocation process – efficient frontier, Lighthouse Partners update and a presentation from the National Institute on Aging. The availability of flights into Orlando on July 18th will determine the exact start time of the meeting, but a target time of 3:00 p.m. was suggested. There being no further business, the meeting was adjourned at 11 a.m.

Summary of Action Items:

- 1. The Trustees approved the minutes for the February 6 and 7, 2006 Trustees meeting as amended.**
- 2. The Trustees received the International Equity Index Overview handout for information.**
- 3. Mr. Sebesta will arrange for Shelly Simpson to attend the July meeting and present the efficient frontier for the MBRF, including scenarios with Emerging Market Equity.**
- 4. The Trustees received the investment review for the first quarter for information.**
- 5. Mr. Sebesta will provide the Trustees with an update on private equity real estate at the July meeting.**
- 6. No changes in the investment policy, asset allocation, or investment managers were recommended at this time.**
- 7. Mrs. Borcheck will contact KPMG to finalize the 990 PF for the 2004 fiscal year, and provide the Trustees with a copy, once finalized.**
- 8. The Trustees received the Annual Compensation Survey for information.**

9. The Trustees approved the same rate of compensation for all Trustees, in the amount of \$40,000 annually, based upon the amount of time each trustee spends on foundation business and the complexity of the duties and responsibilities of the trustees, effective 7/1/2006.
10. The Trustees received the report from the Evelyn F. McKnight Brain Institute for information.
11. The Trustees received the amended schedules 5.2 and 8 to the amended Gift Agreement for information.
12. Mr. Raattama to determine a process defining how the revised schedules, 5.2 and 8, should be added to the Amended Gift Agreement.
13. The Trustees received the draft agreement from the University of Arizona for information and made suggestions for change.
14. Mr. Raattama to make suggested changes to the draft agreement with the University of Arizona and forward the revised draft to the Trustees and University of Arizona.
15. The Trustees received the Minimum Distribution Calculations for information.
16. Mrs. Borcheck to follow up with Mr. Sebesta regarding the projection for funding for the next 2-3 years, if the value of the portfolio increases.
17. Dr. Dockery will invite Dr. Hodes and others he thinks appropriate to attend the July, 2006, meeting of the MBRF to explore further the potential collaboration with the NIA and/or the FNIH in funding research in learning and memory loss in the aging.

Respectfully Submitted,



Teresa W. Borcheck
SunTrust Bank, Corporate Trustee