The Investment Committee of The Board of Trustees of The University of Alabama met on Thursday, June 14, 2012, in Sellers Auditorium of the Bryant Conference Center in Tuscaloosa. Trustee Ronald W. Gray served as Chairman. Mr. Michael A. Bownes, Secretary of the Board of Trustees, called the roll.

The following Committee members were present:

The Honorable Angus R. Cooper II, Trustee from the First Congressional District

The Honorable Marietta M. Urquhart, Trustee from the First Congressional District

The Honorable Kenneth L. Vandervoot, M.D., Trustee from the Third Congressional District

The Honorable James W. Wilson III, Trustee from the Third Congressional District - Vice Chairman

The Honorable Ronald W. Gray, Trustee from the Fifth Congressional District – Chairman

The Honorable William “Britt” Sexton, Trustee from the Fifth Congressional District

The Honorable Vanessa Leonard, Trustee from the Sixth Congressional District

The Honorable John J. McMahon, Jr., Trustee from the Sixth Congressional District

Other Trustees in attendance:

The Honorable Joseph C. Espy III, Trustee from The Second Congressional District

The Honorable W. Davis Malone III, Trustee from the Second Congressional District
The Honorable Paul W. Bryant, Jr., President pro tempore and Trustee from the Fourth Congressional District

The Honorable Finis E. St. John IV, Trustee from the Fourth Congressional District

The Honorable Karen P. Brooks, Trustee from the Seventh Congressional District

The Honorable Judge John H. England, Jr., Trustee from the Seventh Congressional District

The Honorable Andria Scott Hurst, Trustee from the Seventh Congressional District

The meeting was also attended by: Chancellor Robert E. Witt; Vice Chancellor for Financial Affairs C. Ray Hayes; General Auditor Sabrina B. Hearn; UA Interim President Judy L. Bonner; UA Vice President for Financial Affairs and Treasurer Lynda Gilbert; UAB President Carol Z. Garrison; UAB Vice President for Financial Affairs and Administration Richard L. Margison; UAB Health System Chief Executive Officer William Ferniany, UAB Health System Chief Financial Officer John Faulstich; Interim General Counsel and UAB University Counsel John Daniel; UAHuntsville President Robert A. Altenkirch; UAHuntsville Vice President for Finance and Administration Ray Pinner; Chief Investment Officer Tom Gale; and other staff members and support personnel from the Office of the Chancellor, UA, UAB and UAHuntsville.

Chairman Gray thanked everyone for their attendance and called on Kellee Reinhart, Vice Chancellor for System Relations, who introduced Val Walton and Don Kausler, Jr. from The Birmingham News; Maizie Bryant from The Crimson White; Stephanie Taylor from The Tuscaloosa News; Andrew Gribble from al.com; Kelvin Reynolds from Fox 6; and Travis Leder from WVUA.

Chairman Gray asked for approval of the minutes from the May 17, 2012, Investment Committee meeting. Upon motion by Trustee Cooper, seconded by Trustee Vandervoort, the minutes were approved.

Chairman Gray called on Tom Gale to introduce the Revised Board Rule 404 resolution.

Chairman Gray asked for a motion to pass the resolution. Upon motion by Trustee Urquhart, seconded by Trustee Vandervoort, the resolution was approved.
RESOLUTION

WHEREAS, the Investment Committee of The Board of Trustees of The University of Alabama desires to update Board Rule 404, Investment Policy and Guidelines;

NOW, THEREFORE, BE IT RESOLVED by The Board of Trustees of The University of Alabama that it approves the proposed changes to Board Rule 404. (Exhibit A)

Chairman Gray then asked Ray Pinner to introduce the UAHuntsville Student Managed Endowment Fund resolution.

Chairman Gray asked for a motion to pass the resolution. Upon motion by Trustee Cooper, seconded by Trustee Urquhart, the resolution was approved.

RESOLUTION

WHEREAS, the College of Business Administration at The University of Alabama in Huntsville has created a separately managed endowment under Board Rule 404 known as the Durkee Student Investment Group Endowment Fund with Morgan Stanley Smith Barney for the deposit of certain funds under its control;

NOW, THEREFORE, BE IT RESOLVED by The Board of Trustees of The University of Alabama that it does hereby authorize the maintenance and administration of the Durkee Student Investment Group Endowment Fund with Morgan Stanley Smith Barney for the following purpose and upon the following terms and conditions:

1. Purpose of Account:

To deposit endowment funds from the MaryLou Durkee Management Trust. Funds will be controlled by the College of Business Administration, invested in various securities researched and selected by a designated student investment group, and expended in accordance with the terms of the trust, or state regulations if trust is silent.

2. Name(s) of University personnel with authority and responsibility for the opening and closing of the account, for
making deposits in and withdrawals from the account, to perform transactions involving the account using mechanical or facsimile system for the execution of checks, drafts, or other documents, and for otherwise supervising and managing the account:

- Mr. Ray M. Pinner, Vice President for Finance and Administration
- Mr. Robert Leonard, Assistant Vice President, Finance & Business Services
- Dr. Caron St. John, Dean of the College of Business Administration
- Dr. John Burnett, Associate Professor of Finance

There being no other business, Chairman Gray adjourned the meeting.

C. Ray Hayes
Vice Chancellor for Financial Affairs

Michael A. Bownes
Secretary of the Board of Trustees
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.

(Following Moved To Appendix 1)

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. (End of section)

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 properties. 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 (Revised and moved to Section V of Investment Policy for Endowment Funds)

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 (Moved to Appendix 1)

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 (Moved to Appendix 1)

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 (Moved to Section VI of Investment Policy Endowment Funds)

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-III. 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. Quarterly, the investment consultant will make a presentation to the Investment Committee and show performance relative to benchmarks and peer institutions running funds with similar guidelines.

Investment Policy for Endowment Funds & Non-Reserve Assets

I. Investment Objectives (Moved to Section I of 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 – aside from cash held in operating accounts at banks: (End of section)

(Revised and moved to Section I of Investment Policy for System 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)

System Reserves Investments Funds & Non-Reserve

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. (End of section)

Investment Policy for Endowment Funds

I. Investment Objectives

The purpose of the Endowment is to support the UA System campuses, and hospital, related foundations, 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 the Endowment’s beneficiaries.

B.

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 investment 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 Spending Rate for the Pooled Endowment Fund base spending rate of 5% of the trailing 36-month moving average of unit market values. The spending rate 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 (UPMIFA), as adopted by the State of Alabama and codified at Code of Alabama, 19-3C-1, et seq.

III. Target Endowment Asset Allocation (See Appendix 2)

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 the ending rate. 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, as well as changes in asset class valuations or investment manager performance.

IV. Separately Invested Endowments

There are a few endowment funds that are separately invested because the endowments have been funded with gift that are is restricted or non-marketable. To the extent allowed by the Endowment documents, separately managed endowments are to be invested to emulate, as closely as possible, the Pooled Endowment Fund endowment pool investment program adopted by the Board of Trustees using traditional asset allocation, manager selection, and spending rate (See Appendix 2). Each separately invested Endowment fund is to be reviewed periodically to determine if it may be included in the Endowment pool.

The Board of Trustees of The University of Alabama must approve the acceptance of new separately managed endowments that either cannot be invested in the Pooled Endowment Fund or have other restrictions on the management of funds. In addition, The Board of Trustees must approve the financial institution where the assets will be held.

V. Derivative Securities

Investment managers may use derivative securities to achieve their investment objectives subject to the limitations below. The primary intent of derivative security transactions in such cases should be to hedge the risk of the portfolio, or to implement investment strategies more efficiently and at a lower cost than would be possible in the cash market. Derivative based strategies should not be used to leverage the portfolio nor should they be used to expose the portfolio to greater risk than would be typical under a strategy utilizing only cash securities. Furthermore, Investment managers must have appropriate control and review procedures in place to evaluate the risks and exposures of the portfolios on a timely basis. These control and review procedures shall include, but not be limited to, compliance with all necessary legal requirements, creating internal review and control systems to review portfolio risk and using third party pricing of illiquid securities where appropriate.

VI. Directed Brokerage Commissions

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

VII. In-Kind Gift Policy

A. 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.

B. 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 with existing land, timber, and mineral holdings for investment purposes, it should be liquidated as quickly as practical. 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.

Once the real estate is liquidated the funds will be invested in the appropriate System fund.

C. Quarterly, campuses are to provide to System Office a report on all campus managed investments.
D. Each campus will report on non-campus land and natural resources held for investment.

VIII. 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 Policy for System Reserves Managers

I. General Duties and Responsibilities of the Investment Objectives Managers

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
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 managed pooled funds except for certain monies, which are not eligible or appropriate for inclusion in 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 funds, such as Endowment assets, life and annuity trusts, and proceeds from bond issues, guidelines, though the Investment Committee recognizes the prospectus or guidelines of the fund supersede those of the System.

All System reserves are to be managed in one. On a periodic basis, the investment managers of three pooled mutual or commingled funds depending on will review the time horizons guidelines of the reserves aside from cash held in operating 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 at banks in assessing the amount of liquidity and the impact on the security's price.

A. Prime Fund - Long term Reserves (7-10+years)

The Prime Fund is a long term investment fund that emulates as closely as possible the Pooled Endowment Fund, utilizing the same investment managers, except it does not invest in long-term illiquid investments (10 year lock-up funds). As a consequence, it will have a slightly different asset allocation than the Pooled Endowment Fund (see Appendix 2).

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.

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

The Board of Trustees has established a spending rate for the Prime fund (4% of the 36 month moving average of unit market values), which shall be reviewed periodically by the Investment Committee.

B. Intermediate Fund – Intermediate Term Reserves (2-6 years)

B. The Intermediate Fund shall invest primarily in investment grade bonds or bond like investments that are liquid with limited credit risk. The should be targeted to an intermediate-term fixed-income index selected by the Investment Committee shall periodically review the fund managers and fund duration (See Appendix 2) and make changes as dictated by market conditions as well as manager evaluation and may range from +/- 0.5 years of the duration of the index.
C. Short-Term Fund – Short Term Reserves (0-1 year)

The Short Term Fund shall invest in a large, liquid, and high quality 2-A7 money market fund.

II. Allocation of Reserves Among Investment Funds (See Appendix 3)

C. 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 anticipated expenditures. The remaining reserves will be invested in the Prime Investment and Intermediate funds. Equity and equity-like 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 chief 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.

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 manager's 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 Committee Operations adopted November 19, 1999 as Rule 416.

# Appendix 1

## Allocation of Investment Responsibilities for Investable Funds

<table>
<thead>
<tr>
<th>Board of Trustees</th>
<th>Investment Committee</th>
<th>Chair of Investment Committee</th>
<th>Vice Chancellor of Financial Affairs *</th>
<th>Chief Investment Officer</th>
<th>Accounting/Compliance Officer</th>
<th>Legal Review **</th>
<th>Consultant</th>
<th>Investment Managers</th>
<th>Fund Custodian</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Policy</strong></td>
<td>Approves</td>
<td>Recommends</td>
<td>Recommends</td>
<td>Recommends</td>
<td>Develops, Recommends, and Implements</td>
<td>Reviews</td>
<td>Advises</td>
<td>Advises</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Hiring/Firing Consultants</strong></td>
<td>Oversees</td>
<td>Selects</td>
<td>Recommends</td>
<td>Candidates</td>
<td>Recommends</td>
<td>Sets Search Criteria</td>
<td>Reviews</td>
<td>Search Results</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Hiring/Firing Custodians</strong></td>
<td>Oversees</td>
<td>Selects</td>
<td>Recommends</td>
<td>Candidates</td>
<td>Recommends</td>
<td>Sets Search Criteria</td>
<td>Reviews</td>
<td>Search Results</td>
<td>Advises</td>
</tr>
<tr>
<td><strong>Strategic Asset Allocation Targets, Ranges</strong></td>
<td>Approves</td>
<td>Recommends</td>
<td>Recommends</td>
<td>Candidates</td>
<td>Sets Search Criteria</td>
<td>Reviews</td>
<td>N/A</td>
<td>Develops</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Asset Allocation Shifts Within Strategic Asset Allocation</strong></td>
<td>Oversees</td>
<td>Approves</td>
<td>Recommends</td>
<td>Candidates</td>
<td>Sets Search Criteria</td>
<td>Reviews</td>
<td>N/A</td>
<td>Develops</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Rebalancing</strong></td>
<td>Oversees</td>
<td>Oversees</td>
<td>Oversees</td>
<td>Reviews and Executes</td>
<td>Develops, Recommends, and Implements</td>
<td>Reviews</td>
<td>N/A</td>
<td>Monitors and Reports</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Traditional Asset Manager Selection</strong></td>
<td>Oversees</td>
<td>Approves</td>
<td>Recommends</td>
<td>Candidates</td>
<td>Sets Search Criteria</td>
<td>Reviews</td>
<td>Advises</td>
<td>Develops</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Alternative Asset Manager Selection</strong></td>
<td>Oversees</td>
<td>Approves</td>
<td>Recommends</td>
<td>Candidates</td>
<td>Sets Search Criteria</td>
<td>Reviews</td>
<td>Advises</td>
<td>Develops</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>External Security Selection</strong></td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Monitors</td>
<td>N/A</td>
<td>Monitors</td>
<td>Monitors</td>
<td>Monitors</td>
</tr>
<tr>
<td><strong>Performance Measurement and Evaluation</strong></td>
<td>Oversees</td>
<td>Reviews and Evaluates</td>
<td>Reviews</td>
<td>Reviews</td>
<td>Monitors, Evaluates</td>
<td>N/A</td>
<td>Monitors, Evaluates and Reports</td>
<td>Reports</td>
<td>Reports</td>
</tr>
<tr>
<td><strong>Daily Administrative Issues (Related to Funds)</strong></td>
<td>Oversees</td>
<td>Oversees</td>
<td>Oversees</td>
<td>Reviews and Executes</td>
<td>Determines and Implements</td>
<td>Reviews</td>
<td>Advises</td>
<td>Advises</td>
<td>As Needed</td>
</tr>
<tr>
<td><strong>Security Lending</strong></td>
<td>Oversees</td>
<td>Approves</td>
<td>Recommends</td>
<td>Candidates</td>
<td>Sets Search Criteria</td>
<td>Reviews</td>
<td>Advises</td>
<td>Advises</td>
<td>As Needed</td>
</tr>
<tr>
<td><strong>Currency Hedging</strong></td>
<td>Oversees</td>
<td>Approves</td>
<td>Recommends</td>
<td>Candidates</td>
<td>Sets Search Criteria</td>
<td>Reviews</td>
<td>Advises</td>
<td>Advises</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Manager Watch List</strong></td>
<td>Oversees</td>
<td>Approves</td>
<td>Recommends</td>
<td>Candidates</td>
<td>Sets Search Criteria</td>
<td>Reviews</td>
<td>Advises</td>
<td>Advises</td>
<td>As Needed</td>
</tr>
</tbody>
</table>

* Board delegates signing authority to Vice Chancellor for Financial Affairs, through Chancellor

** Legal Review involves issues of jurisdiction and State Law
APPENDIX 2

POOLED ENDOWMENT & SIE FUNDS

<table>
<thead>
<tr>
<th>Asset Allocation</th>
<th>Long Term Asset Allocation</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQUITIES</td>
<td>40%</td>
<td>30%-50%</td>
</tr>
<tr>
<td>FIXED INCOME &amp; CASH</td>
<td>17%</td>
<td>10%-25%</td>
</tr>
<tr>
<td>ALTERNATIVES</td>
<td>43%</td>
<td>35%-50%</td>
</tr>
</tbody>
</table>

PRIME FUND

<table>
<thead>
<tr>
<th>Asset Allocation</th>
<th>Long Term Asset Allocation</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQUITIES</td>
<td>55%</td>
<td>45%-65%</td>
</tr>
<tr>
<td>FIXED INCOME &amp; CASH</td>
<td>20%</td>
<td>10%-30%</td>
</tr>
<tr>
<td>ALTERNATIVES</td>
<td>25%</td>
<td>15%-35%</td>
</tr>
</tbody>
</table>

INTERMEDIATE FUND

<table>
<thead>
<tr>
<th>Target Duration</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.5 YEARS</td>
<td>+/- 0.5 YEARS</td>
</tr>
</tbody>
</table>
APPENDIX 3

<table>
<thead>
<tr>
<th>INSTITUTION</th>
<th>TARGET EQUITY EXPOSURE</th>
<th>RANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>The University of Alabama</td>
<td>50.0%</td>
<td>32.0 – 50.0%</td>
</tr>
<tr>
<td>The University of Alabama at Birmingham</td>
<td>50.0%</td>
<td>32.0 – 50.0%</td>
</tr>
<tr>
<td>The University of Alabama Hospital</td>
<td>50.0%</td>
<td>32.0 – 50.0%</td>
</tr>
<tr>
<td>The University of Alabama in Huntsville</td>
<td>50.0%</td>
<td>32.0 – 50.0%</td>
</tr>
</tbody>
</table>