

STANDARD CHARITABLE REMAINDER UNITRUSTS

DISCLOSURE OF KEY INVESTMENT ISSUES AND RISKS

Donors and beneficiaries of charitable remainder unitrusts often have questions about their trust's expected performance and how this will affect their payments. For more than 30 years, charitable remainder trusts have proven to be flexible and effective plans for achieving donors' personal and charitable goals. However, as with any portfolio that is invested in the financial markets, a certain level of risk is involved. The discussion that follows explains how payments are calculated and some important risks that donors should consider. Additional information about any of these issues is available upon request.

How Payments are Determined

Each year, a standard unitrust distributes to its income beneficiary(ies) an amount equal to the payout rate percentage times the market value of the trust, measured on the trust's valuation date, usually January 1. For example, if a 5% payout trust has a valuation of \$100,000 on January 1, the payments that year would total \$5,000. If the valuation the following January 1 is \$104,000, the distribution for the second year would be \$5,200. When a new trust is established, the payments for the first year are based on the value of the funding assets on the trust creation date and are pro-rated based upon the number of days remaining in the year.

Payments from standard unitrusts are made whether or not the portfolio earns the distribution amount in income; the difference is paid from capital gains or principal. Because the payout of a standard unitrust is not dependent on the income earned, the manager of the trust can invest for total return using a

mix of stocks and bonds to meet the trust's objectives for risk and return.

Investing the Trust

The trustee selects an investment strategy for each standard unitrust based on the trust's payout rate, time horizon, and other factors. These factors determine how much of the portfolio will be invested in equities. A greater allocation to equities increases the expected total return of the portfolio over time and therefore its ability to keep pace with inflation. However, it also introduces greater risk and increases the likelihood of more volatility in trust payments. KASPICK & COMPANY works with the trustee to evaluate these risk/return trade-offs.

The equity and bond allocations are diversified across asset classes and manager styles. The trust is invested in a portfolio of institutional-quality, no-load mutual funds. By investing in mutual funds, the trustee can adequately diversify portfolios of all sizes.

Risk—Payment Volatility

Payments from a standard unitrust are calculated each year based on the market value of the trust. If the market value increases over the prior year, the annual payment increases; if the market value falls, the annual payment drops as well. Projections based on long-term average returns may lead to an expectation that unitrust payments will rise constantly over time. Actual year-to-year results are likely to be much more volatile. This volatility is reflected in Exhibit I, which illustrates projected and actual payments for a 5% standard unitrust funded with \$100,000.

The Expected Payout line projects income based on the long-term average expected return of 8.4% for KASPICK & COMPANY's Growth portfolio (71% equities/29% bonds). The Actual Payout line shows how the trust payments would have looked if the trust had been funded in 1970 and invested in a 70% stock/30% bond portfolio. This period included one of the worst bear markets in history. The historical returns for the period are constructed using the S&P 500 and Lehman Brothers bond indexes.

Risk—Portfolio Returns Do Not Meet Expectations

With all investment strategies, there is a risk that the portfolio will not meet the investor's return expectations. For example, since 1926, a portfolio invested 70% in stocks and 30% in bonds generated an average annual compound return of 9.3%. However, the range of annual returns over this period was huge: the best annual return was 38.2% and the worst -31.3%. Exhibit II reflects the

range of returns for periods of varying lengths from 1926 to 2005.

A relatively long investment horizon, say 20 years, increases the chance the portfolio will generate a return closer to the long-term average, but it does not guarantee that the long-term average will be achieved. For example, since 1926 the best 20-year period produced an average annual return of 15.6%, while the worst 20-year period produced an average return of 3.9%. While this range of returns is much narrower than the range of returns for one-year periods, in more than 45% of the 20-year periods the return trailed the average. If the trust experiences a low-return period, payments will likely be substantially below expectations, and the remainder value may not be sufficient to accomplish the donor's objectives.

The best 20-year return was earned in the 20 years ending 1998. This was an extraordinary bull market for both stocks and bonds. There is, however, a tendency for stock market returns to revert to their long-term averages.

Exhibit I

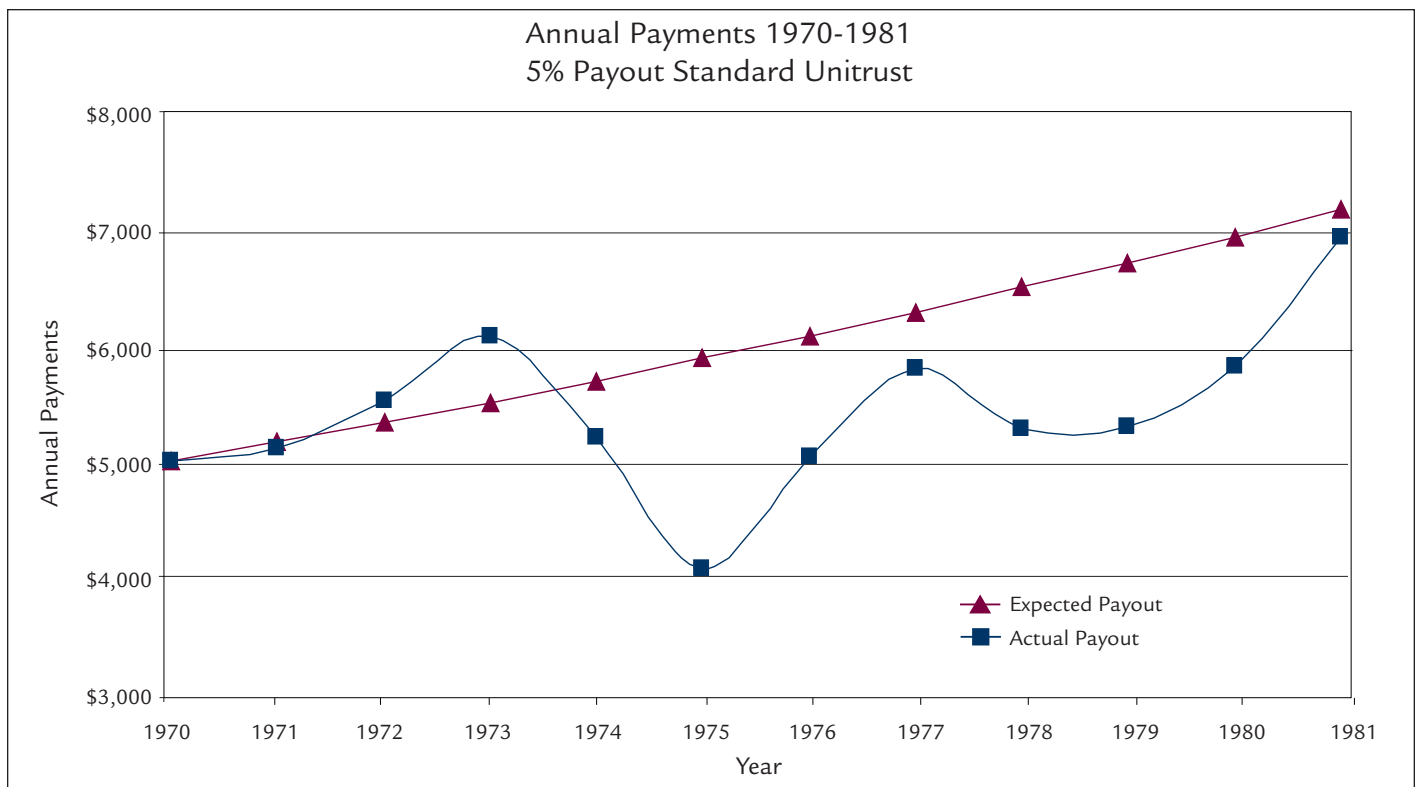
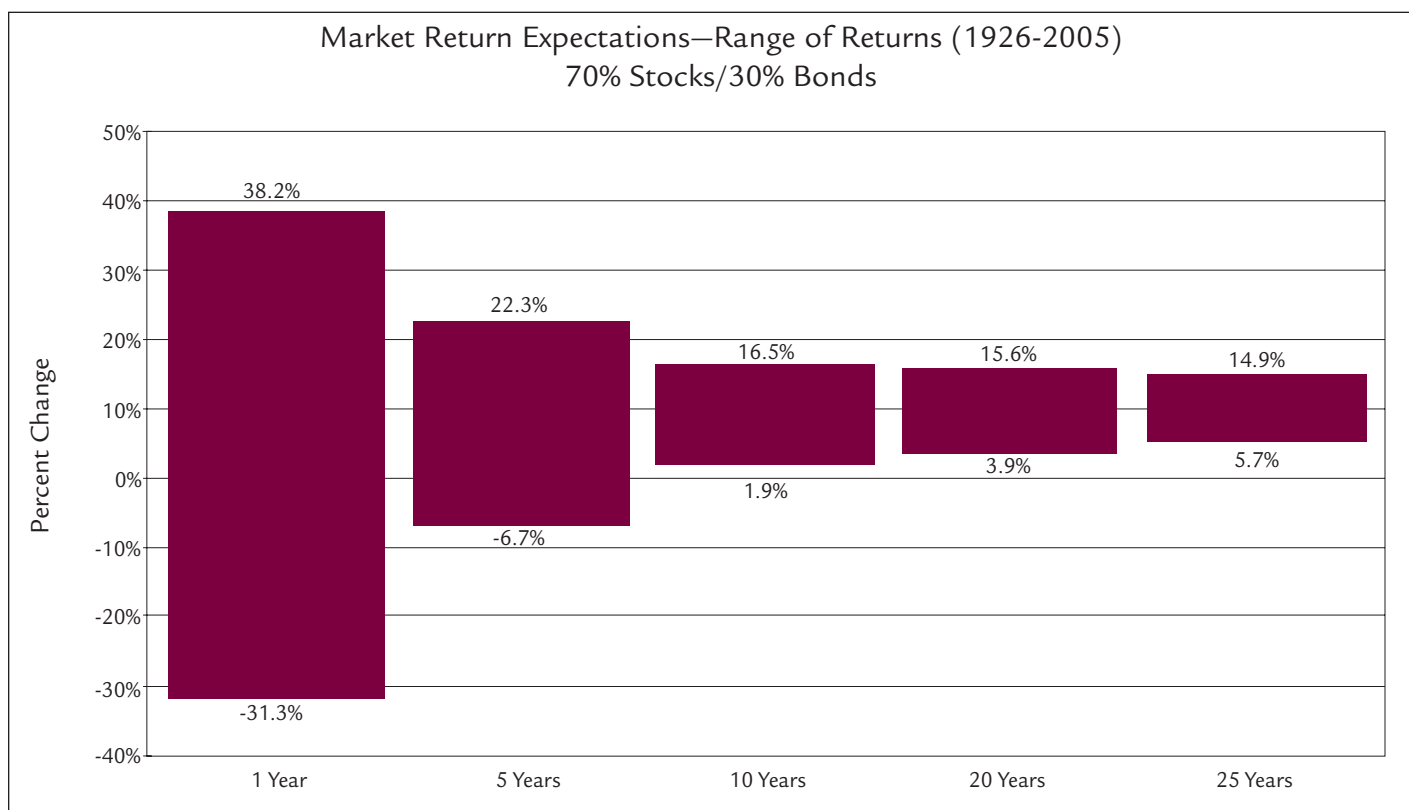


Exhibit II



In other words, periods of higher returns tend to be followed by periods of lower returns and vice versa. It would be unwise to assume that the higher returns experienced in the late 1990s will be repeated for some time.

Risk—Inflation

Charitable trust payments are typically made over a period of 10 to 20 years and therefore are subject to erosion in value due to inflation. If the trust does not generate a return each year that exceeds the sum of the payout rate, any fees charged to the trust, and the inflation rate, then the payments will lose purchasing power. We see this in Exhibit III.

The two trusts are invested in the same way and are expected to earn a total return of 8.4%, net of fees. The 5% payout trust maintains its purchasing power over time; each year, the payments increase in nominal dollars, but they purchase the same amount. Although payments from the 7% payout

trust are greater at the start and also grow in nominal terms over time, they lose 1.8% of their purchasing power each year. At the end of 20 years, the annual payment from the second trust will purchase only about 71% of what it did in the first year, and less than that year's payment from Trust 1. A period of higher inflation would exacerbate this problem. #

Exhibit III

	Trust 1	Trust 2
Expected Net Total Return	8.4%	8.4%
Payout Rate	-5.0%	-7.0%
Inflation Rate	-3.2%	-3.2%
Change in Purchasing Power	0.2%	-1.8%