



## TIAA-CREF INSTITUTIONAL TRUST COMPANY DISCUSSION OF 2009 UNITRUST PAYMENTS

A number of our unitrust donors have asked what they can expect in terms of payments next year given the dramatic events in the markets so far in 2008. This question is hard to answer given that the year is not yet over. Indeed, in this time of unprecedented market volatility, almost anything we write will likely be out of date by the time you read it. However, we will try to address this question first by providing a sense of what the change in payments *might be* if portfolio returns for the full calendar year remain similar to what they were at October 31. After that, we will address market returns since quarter end. The scenarios we present are hypothetical in nature, for illustrative purpose only, and are not intended to project or predict the performance of any specific product or portfolio. Actual results will vary.

The approximate ranges presented below provide a guideline for understanding where a trust may be categorized in terms of its investment objective and general asset allocation. Since each trust has its own asset allocation, the actual ranges will vary as will the components of each trust. However, we believe this data can give a reasonable approximation of possible results. For equity returns, we used the Russell 3000 Index since it includes a wide range of domestic equity securities ranging from small cap to large cap. For bond returns we used the TIAA-CREF Institutional Bond Fund since it is the most frequently used in our client accounts. To the extent that a specific portfolio deviates materially from the components listed above in terms of its holding, that portfolio's results are likely to be different than the data present below.

### APPROXIMATE RANGES FOR ASSET ALLOCATION

<u>Investment Objective</u>	<u>Equities %</u>	<u>Bonds %</u>
Aggressive Growth	90.0%	10.0%
Growth	77.5%	22.5%
Growth and Income	65.0%	35.0%
Balanced	50.0%	50.0%
Income and Growth	32.5%	67.5%
Income	12.5%	87.5%

#### **Equity Oriented Strategies:**

#### ***Aggressive Growth, Growth, and Growth & Income***

As you know, beneficiary payments for standard unitrusts are reset at the beginning of each year. Typically, the new payment amount is determined by multiplying the market value of the trust on the first day of the calendar year by the unitrust payout rate. This means that your payments each year are based on your trust's January 1 value. If we

assume markets finish the calendar year at the same levels they were at on October 31, most 2009 unitrust payments for trusts invested in equity portfolios will be down by about 28% to 36% when compared to 2008 (this assumes a 6% payout rate). The decline would be the result of poor market performance through October 31, 2008 (portfolios were off 22%-30%) combined with the payments made from the trust this year.

On a year-to-date basis, which would include results so far in November, the market has continued its decline. The S&P 500 is down approximately an additional 10%. Markets around the globe have participated similarly in this dramatic and sustained sell-off in equities. Unlike the 2000–2002 bear market, which offered investors multiple places of refuge, there have been few safe harbors in this market with one exception being U.S. Treasuries. As of November 14, a typical equity-oriented portfolio is down 26%-35% for the year, which means payments next year would be down 32%-42% if these were the calendar year-end results. Individual portfolio results will vary depending on portfolio composition, payout rate, and whether fees are charged to the trust, among other factors.

### **Balanced Oriented Strategies:**

#### ***Balanced***

As you know, beneficiary payments for standard unitrusts are reset at the beginning of each year. Typically, the new payment amount is determined by multiplying the market value of the trust on the first day of the calendar year by the unitrust payout rate. This means that your payments each year are based on your trust's January 1 value. If we assume markets finish the calendar year at the same levels they were at on October 31, most 2009 unitrust payments for trusts invested in balanced-oriented portfolios will be down by about 23% to 25% when compared to 2008 (this assumes a 6% payout rate). The decline would be the result of poor market performance through October 31, 2008 (portfolios were off 17% to 19%) combined with the payments made from the trust this year.

On a year-to-date basis, which would include results so far in November, the market has continued its decline. The S&P 500 is down approximately an additional 10%. Markets around the globe have participated similarly in this dramatic and sustained sell-off in equities. Unlike the 2000–2002 bear market, which offered investors multiple places of refuge, there have been few safe harbors in this market with one exception being U.S. Treasuries. As of November 14, a typical balanced portfolio is down 19% to 21% for the year, which means payments next year would be down 25% to 27% if these were the calendar year-end results. Individual portfolio results will vary depending on portfolio composition, payout rate, and whether fees are charged to the trust, among other factors.

## **Bond Oriented Strategies:**

### ***Income & Growth and Income***

As you know, beneficiary payments for standard unitrusts are reset at the beginning of each year. Typically, the new payment amount is determined by multiplying the market value of the trust on the first day of the calendar year by the unitrust payout rate. This means that your payments each year are based on your trust's January 1 value. If we assume markets finish the calendar year at the same levels they were at on October 31, most 2009 unitrust payments for trusts invested in bond portfolios will be down by about 13% to 18% when compared to 2008 (this assumes a 6% payout rate). The decline would be the result of poor market performance through October 31, 2008 (portfolios were off 7% to 13%) combined with the payments made from the trust this year.

On a year-to-date basis, which would include results so far in November, the market has continued its decline. The S&P 500 is down approximately an additional 10%. Markets around the globe have participated similarly in this dramatic and sustained sell-off in equities. Unlike the 2000–2002 bear market, which offered investors multiple places of refuge, there have been few safe harbors in this market with one exception being U.S. Treasuries. As of November 14, a typical balanced to bond-oriented portfolio is down 6% to 14% for the year, which means payments next year would be down 12% to 20% if these were the calendar year-end results. Individual portfolio results will vary depending on portfolio composition, payout rate, and whether fees are charged to the trust, among other factors.

This has been an exceedingly difficult year for investors and those managing investment portfolios. While our portfolios have certainly not escaped the turmoil of the financial markets, we have avoided significant losses outside the bounds dictated by a well-diversified approach. This well-diversified approach helps protect portfolios over the long term by helping to reduce volatility, even if, in the short term, materially negative returns are experienced. Of course diversification cannot eliminate the risk of fluctuating prices, uncertain returns, and possible loss of principle to which current and future portfolio holdings are subject.

This strategy has served our trust program well over the years and we do not believe it is wise to make dramatic changes to the portfolios, despite the events of the last few weeks and months. Trying to time the market is theoretically appealing, but it rarely succeeds in practice. Market rallies usually occur suddenly and over short periods of time. If a portfolio is out of the market during those times, it will miss all or most of the gains that will allow it to recover. Additionally, an investor trying to time the market must be correct on two points – when to get out *and* when to get back in, a particularly difficult risky endeavor.

The Russell 3000 Index measures the performance of the 3,000 largest publicly traded U.S. companies, based on market capitalization. These companies make up about 98% of the total market capitalization of the publicly traded U.S. equity market. It is not possible to invest directly in this index.

The Lehman Brothers U.S. Aggregate Index measures the performance of the U.S. investment-grade, fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities, and commercial mortgage-backed securities. It is not possible to invest directly in this index.

***You should consider the investment objectives, risks, charges and expenses carefully before investing. Please call 877 518-9161, or go to [tiaa-cref.org](http://tiaa-cref.org) for a current prospectus that contains this and other information. Please read the prospectus carefully before investing. All TIAA-CREF investment vehicles are subject to market and other risk factors, which could result in loss of principal***

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