



BILL & MELINDA GATES FOUNDATION TRUST

Financial Statements

December 31, 2008 and 2007

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 900
801 Second Avenue
Seattle, WA 98104

Independent Auditors' Report

The Trustees
Bill & Melinda Gates Foundation Trust:

We have audited the accompanying statements of financial position of the Bill & Melinda Gates Foundation Trust (Trust) as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bill & Melinda Gates Foundation Trust as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As disclosed in note 2(d) to the financial statements, the Trust adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, as of January 1, 2008.

KPMG LLP

May 15, 2009

BILL & MELINDA GATES FOUNDATION TRUST

Statements of Financial Position

December 31, 2008 and 2007

(In thousands)

Assets	2008	2007
Cash and cash equivalents	\$ 305,184	435,928
Investments	29,670,616	39,071,008
Investments loaned under secured lending transactions	1,261,902	4,492,520
Investment sales receivable	645,808	544,847
Interest and dividends receivable	141,913	200,733
Federal current and deferred excise tax receivable	44,119	—
Total assets	<u>\$ 32,069,542</u>	<u>44,745,036</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other accrued liabilities	\$ 499	1,474
Payable under investment loan agreements	1,295,252	4,583,440
Investment purchases payable	1,199,305	1,425,418
Federal current and deferred excise tax payable	—	81,728
Total liabilities	<u>2,495,056</u>	<u>6,092,060</u>
Net assets – unrestricted	<u>29,574,486</u>	<u>38,652,976</u>
Total liabilities and net assets	<u>\$ 32,069,542</u>	<u>44,745,036</u>

See accompanying notes to financial statements.

BILL & MELINDA GATES FOUNDATION TRUST

Statements of Activities

Years ended December 31, 2008 and 2007

(In thousands)

	<u>2008</u>	<u>2007</u>
Change in net assets:		
Revenues and gains (losses):		
Contributions	\$ 1,982,275	3,127,756
Investment income (loss), net	(7,830,420)	4,950,789
Total revenues and gains (losses)	<u>(5,848,145)</u>	<u>8,078,545</u>
Expenses (benefit):		
Grants to the Bill & Melinda Gates Foundation	3,307,259	2,327,300
Administrative expenses	1	466
Federal excise and other taxes (benefit) expense	(76,915)	61,010
Total expenses, net	<u>3,230,345</u>	<u>2,388,776</u>
Changes in net assets before transfers	(9,078,490)	5,689,769
Transfer of net liabilities to the Bill & Melinda Gates Foundation on January 1, 2007	<u>—</u>	<u>3,399,031</u>
Change in net assets	(9,078,490)	9,088,800
Unrestricted net assets, beginning of year	<u>38,652,976</u>	<u>29,564,176</u>
Unrestricted net assets, end of year	<u>\$ 29,574,486</u>	<u>38,652,976</u>

See accompanying notes to financial statements.

BILL & MELINDA GATES FOUNDATION TRUST

Statements of Cash Flows

Years ended December 31, 2008 and 2007

(In thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ (9,078,490)	9,088,800
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Stock contributions	(1,799,362)	(2,604,993)
Net realized and unrealized losses (gains) on investments	8,682,167	(4,034,262)
Noncash transfer of net liabilities to the Bill & Melinda Gates Foundation	—	(3,404,897)
Changes in operating assets and liabilities:		
Interest and dividends receivable	58,820	9,593
Federal current and deferred excise tax receivable	(44,119)	8,523
Accounts payable and other accrued liabilities	(975)	(3,311)
Federal current and deferred excise tax payable	(81,728)	39,486
Net cash provided by (used in) operating activities	<u>(2,263,687)</u>	<u>(901,061)</u>
Cash flows from investing activities:		
Purchases of investments	(291,436,204)	(296,140,229)
Proceeds from sales of investments	<u>293,569,147</u>	<u>297,316,833</u>
Net cash provided by (used in) investing activities	<u>2,132,943</u>	<u>1,176,604</u>
Net (decrease) increase in cash and cash equivalents	(130,744)	275,543
Cash and cash equivalents, beginning of year	<u>435,928</u>	<u>160,385</u>
Cash and cash equivalents, end of year	<u>\$ 305,184</u>	<u>435,928</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for excise taxes	\$ 48,706	13,000

See accompanying notes to financial statements.

BILL & MELINDA GATES FOUNDATION TRUST

Notes to Financial Statements

December 31, 2008 and 2007

(In thousands)

(1) Organization

The Bill & Melinda Gates Foundation Trust (Trust) is a charitable trust that holds the endowment from Bill and Melinda Gates, and operates its main office in Seattle, Washington.

In 2006, to separate its grantmaking from the management of its endowment, the Trust (formerly the Bill & Melinda Gates Foundation) implemented a two-trust structure. On October 25, 2006, the organization then known as Bill & Melinda Gates Foundation changed its name to Bill & Melinda Gates Foundation Trust. The primary role of the Trust is to manage the investment of the endowment. Bill and Melinda Gates are its Trustees. On that same date, a new organization was formed; the Bill & Melinda Gates Foundation (Foundation). Its trustees are Bill and Melinda Gates, and Warren Buffett. Additional information is provided in note 10 to explain the relationship and purposes of the two entities beginning in 2007.

(2) Summary of Significant Accounting Policies

(a) *Basis of Financial Presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting.

The Trust recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions, net assets, and changes therein are classified and reported based on the existence or absence of donor-imposed restrictions. For the years ended December 31, 2008 and 2007, all activities of the Trust were classified as unrestricted due to the lack of donor-imposed restrictions.

(b) *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash, money market funds, and highly liquid investments with original maturities of three months or less at the date of acquisition.

(c) *Investments*

Investments are stated at fair value and are recorded on the trade or contract date. The estimated fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. Alternative investments include private equity interests, mutual and commingled funds, bonds, notes, and other investments. The estimated fair value of certain alternative investments, such as private equity interests, is based on valuations provided by the general partner. The Trust reviews and evaluates the values provided by the general partner and assesses the valuation methods and assumptions used in determining the fair value of private equity investments. Other alternative investments are valued in a variety of ways including broker quotations and pricing models. Alternative investments make up less than 3% of total investments. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the statement of activities in the period that such fluctuations occur.

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December 31, 2008 and 2007

(In thousands)

Investment sales and purchases are recorded on a trade-date basis, which results in both investment receivables and payables on unsettled investment trades. Dividend income is recorded based upon the ex-dividend date, and interest income is recorded as earned on an accrual basis. Futures, forwards, and options contracts are marked to market with the change reflected in investment income.

(d) *Fair Value of Financial Instruments*

The Trust adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157), effective January 1, 2008. In accordance with FAS 157, fair value is defined as the price that the Trust would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. FAS 157 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Trust's own assumptions in determining the fair value of investments)

See note 3, Investments, for a summary of the inputs used as of December 31, 2008 in determining the fair value of the Trusts' investments.

(e) *Contributed Services*

Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The value of contributed services recorded in the accompanying statement of activities, consisting primarily of investment management services provided by Bill Gates, totaled \$182,914 and \$167,761 for the years ended December 31, 2008 and 2007, respectively. Investment management services contributed are reflected as contributions revenue, and as investment management services expense, which is netted against investment income (losses).

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Notes to Financial Statements

December 31, 2008 and 2007

(In thousands)

(f) Tax-exempt Status

The Trust is exempt from federal income taxes under Section 501(c)(3) and is classified as a private foundation under Section 509(a) of the Internal Revenue Code. The Trust is subject to federal excise taxes as well as federal and state unrelated business income tax.

(g) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) Contributions Received

The Trust receives contributions from related and unrelated parties. Related party contributions in 2008 and 2007 were received from Warren Buffett and Bill Gates. Warren Buffett contributed Berkshire Hathaway "B" shares valued at \$1,799,362 and \$1,763,414 in 2008 and 2007, respectively. Bill Gates contributed cash, stock, and third party investment management fees totaling \$57,239 and \$1,253,672 in 2008 and 2007, respectively. In addition, Bill Gates contributed investment management services as described in note 2(e). Contributions from unrelated parties are only accepted by the Trust if they are unrestricted. The Trust has been notified that it has been named as the beneficiary in the estate of certain individuals under revocable agreements. Such amounts will be recorded as contributions upon the passing of the donor and the amounts become irrevocable.

(i) Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform with the 2008 presentation.

(j) 2007 Statement of Cash Flows Correction

The statement of cash flows in the previously issued 2007 financial statements contained a misstatement due to stock contributions which were inadvertently presented as a source rather than a use of cash.

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Notes to Financial Statements

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(In thousands)

This error had no net effect on total cash and cash equivalent balances reported or net changes in cash and cash equivalents. These amounts have been restated in the accompanying financial statements.

	<u>As Reported</u>	<u>As Restated</u>
Cash flows from operating activities:		
Stock contributions	\$ 2,604,993	(2,604,993)
Cash flows from investing activities:		
Purchases of investments	(301,345,315)	(296,135,329)

(3) Investments

At December 31, 2008 and 2007, the Trust's investments consist of the following:

	<u>2008</u>	<u>2007</u>
Short-term investments	\$ 546,655	1,061,068
Bonds, notes, and other	15,332,651	19,621,773
Equities	13,530,725	18,072,866
Private equity investments	325,799	224,381
Cash collateral from investments loaned reinvested	1,196,688	4,583,440
	<u>30,932,518</u>	<u>43,563,528</u>
Less investments loaned under secured lending transactions	<u>(1,261,902)</u>	<u>(4,492,520)</u>
Total investments	\$ <u>29,670,616</u>	<u>39,071,008</u>

Short-term investments consist primarily of U.S. government treasury securities, high-grade commercial paper, and discounted notes. Bonds, notes, and other consist primarily of U.S. government agency and treasury securities, mortgage-backed securities, collateralized mortgage obligations, high-grade corporate securities, international corporate and government securities, and investments in domestic and international pooled funds. Equities consist primarily of U.S. and international stock. Cash collateral reinvested under investments loaned (see note 4) included \$388,423 in short-term investments and \$808,265 in bonds, notes, and other investments.

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(In thousands)

Investment income (loss) was comprised of the following for the years ended December 31, 2008 and 2007.

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 1,060,307	1,110,845
Net realized and unrealized (losses) gains on investments	(8,682,167)	4,034,262
Investment expenses:		
Contributed investment management expenses (see note 2(e))	(182,914)	(167,761)
Third-party investment management and custodian fees and other expenses	<u>(25,646)</u>	<u>(26,557)</u>
Investment (loss) income, net	\$ <u><u>(7,830,420)</u></u>	<u><u>4,950,789</u></u>

The following is a summary of the inputs used as of December 31, 2008 in valuing the Trust's investments carried at fair value:

	<u>December 31, 2008</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
		(Dollars in thousands)		
Short-term investments	\$ 935,078	304,905	630,173	—
Bonds, notes, and other	14,879,014	2,227,937	12,124,227	526,850
Equities	13,530,725	13,467,786	7,903	55,036
Private equity investments	<u>325,799</u>	<u>—</u>	<u>—</u>	<u>325,799</u>
Total	\$ <u><u>29,670,616</u></u>	<u><u>16,000,628</u></u>	<u><u>12,762,303</u></u>	<u><u>907,685</u></u>

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(In thousands)

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

	Bonds, notes and other	Equities	Private equity investments	Total
	(Dollars in thousands)			
Beginning balance	\$ 403,860	14,013	224,381	642,254
Total gains or losses (realized and unrealized)	93,865	(11,701)	(130,648)	(48,484)
Purchases, issuances, and settlements	28,226	52,304	232,066	312,596
Transfers in and/or out of Level 3	899	420	—	1,319
Ending balance	<u>\$ 526,850</u>	<u>55,036</u>	<u>325,799</u>	<u>907,685</u>

The amount of total gains or losses for the period included in investment income (loss) attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2008

\$ (139,368)

(4) Securities Lending

The Trust participates in securities lending transactions with a third-party investment company whereby the Trust lends certain investments in exchange for a premium. Under the terms of its securities lending agreement, the Trust requires collateral of a value at least equal to 102% of the fair value of the loaned investments and accrued interest, if any. The Trust maintains effective control of the loaned investments during the term of the agreement, in that, they may be redeemed prior to the agreement's maturity. Upon the maturity of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed. The principal risks to the Trust of securities lending are that the yield earned on the collateral is insufficient to cover the rebate owed to the borrower, and that an investment purchased via the collateral reinvestment process becomes impaired. As of December 31, 2008, cash instruments received as collateral and reinvested in other investments decreased \$98,564 as a result of unrealized losses due to market declines, bringing the total value to \$1,196,688. Investments loaned under secured lending transactions totaled \$1,261,902 and \$4,492,520 as of December 31, 2008 and 2007, respectively.

Cash and noncash financial instruments received as collateral totaled \$1,295,252 and \$4,583,440 as of December 31, 2008 and 2007, respectively. Amounts received as collateral are included in investments and as a payable under investment loan agreements in the accompanying statements of financial position.

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Notes to Financial Statements

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(In thousands)

(5) Derivative Financial Instruments

In the normal course of business, the Trust uses various financial instruments, including derivative financial instruments, in an effort to manage exposure on long-term investments.

In order to manage price and interest rate risk associated with investing activities, the Trust primarily uses a combination of forward contracts and futures. Under these instruments, the Trust agrees to the future delivery of a currency or security, on an agreed-upon date, and at an agreed-upon price. These contracts are entered into with the intent of minimizing the Trust's economic exposure to adverse fluctuations in financial or currency markets and to reduce interest rate risk.

The Trust also enters into derivative instruments for speculative and other purposes, including income enhancement and as an alternative to ownership of the underlying asset. Specifically, written options and forward contracts are used for enhancing returns on other investments and as an alternative to ownership.

All of the Trust's derivative instrument positions are marked to current value as a component of investment income. The fair values of these instruments are included in investments in bonds, notes, and other.

The net notional and fair values of forward contracts, futures, options, and swaps as of December 31, 2008 and 2007 are as follows:

	2008		2007	
	Notional value	Fair value	Notional value	Fair value
Forward contracts	\$ 16,246,563	225,075	11,407,702	58,368
Futures	2,042,725	5,633	(512,532)	6,433
Options	11,544	(2,693)	(55,118)	(28,056)
Swaps	21,615	(29,803)	(1,452,293)	(31,091)
		\$ 198,212		5,654

All notional amounts have been translated to and aggregated in U.S. dollars.

The Trust's derivative instruments involve varying degrees of risk of loss in excess of the amount recognized in the statement of financial position, arising either from potential changes in market prices or the possible inability of counterparties to meet the terms of their contracts. The Trust monitors the financial condition of the firms used for these contracts in order to minimize the risk of loss. Management believes the Trust's use of derivatives does not result in credit or market risk that would materially affect the Trust's financial statements.

(6) Federal Excise and Other Taxes

The Trust is subject to federal excise taxes imposed on private foundations at 2%, or at 1% if certain conditions are met. The excise tax is imposed on net investment income, as defined under federal law, which includes interest, dividends, and net realized gains on the sale of investments. The Trust qualified

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(In thousands)

for a 1% excise tax rate for the years ended December 31, 2008 and 2007. The current portion of excise tax expense is \$16,680 and \$38,607 for the years ended December 31, 2008 and 2007, respectively.

The Trust made provisions for deferred excise taxes, which were recorded at the 1% excise tax rate in 2008 and 2007. Deferred excise tax expense (credit) was \$(93,822) and \$22,403 for the years ended December 31, 2008 and 2007, respectively, resulting from net unrealized losses and gains on investments, respectively.

Other taxes of \$55 were paid for the year ended December 31, 2008, primarily on unrelated business income generated as a result of the Trust's investments.

(7) Commitments and Contingencies

Legal Matters

In the ordinary course of business, the Trust is subject to certain legal actions. In the opinion of management, such matters will not have a material effect on the financial position of the Trust.

(8) Related Parties

The Trust holds and invests an endowment that funds a related party, the Bill & Melinda Gates Foundation (Foundation). The Trust makes annual grants to the Foundation as necessary to carry out the Foundation's charitable goals. Neither entity controls the other; however, they share two trustees in common.

A related party to the Foundation is IRIS Holdings, LLC (IRIS), a single member limited liability corporation formed for the purpose of purchasing land for the Foundation's new campus and constructing and owning the headquarters. The Trust previously held the single member ownership of IRIS, and transferred its interest in IRIS to the Foundation on November 1, 2006, pursuant to a transfer and assignment agreement.

(9) Conditional Pledge Receivable

The Trust recognizes conditional promises to give as revenues when the conditions are met. On June 26, 2006, Warren Buffett, a Trustee of the Foundation, pledged to the Trust ten million shares of Berkshire Hathaway "B" shares. The shares will be transferred in annual gifts of 5% of the balance of the earmarked shares. Mr. Buffett has made provisions in his will for the remaining shares to be transferred to the Trust over a ten-year period, upon settlement of his estate.

The first installment of 500,000 shares, valued at \$1,603,000, was contributed in August 2006. The second installment of 475,000 shares, valued at \$1,763,414, was contributed in July 2007 and the third installment of 451,250 shares, valued at \$1,799,362, was contributed in July 2008. Although Mr. Buffett did not designate any significant restrictions on the use of the contributions, he did place three conditions on his remaining pledge:

- (1) At least one of Bill or Melinda Gates must remain alive and active in the policy-setting and administration of the Foundation.

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Notes to Financial Statements

December 31, 2008 and 2007

(In thousands)

- (2) The Trust must continue to satisfy legal requirements qualifying his gift as charitable and not subject to gift or other taxes.
- (3) After a three-year period, designed to give the Foundation time to adjust its grant-making and supporting operations, the value of his annual gift must be fully additive to the spending required by the Internal Revenue Service Code (i.e. approximately 5% of the Trust's net assets). The additional spending required as a condition of the gift will be based on the prior year's contribution. This means that the Trust must comply with the increased spending requirement beginning in 2009, based on the value of Mr. Buffett's 2008 contribution.

As this gift is conditional and the conditions cannot be satisfied in advance of each year's installment of the gift, a receivable for the remaining contribution has not been reflected in the financial statements. Rather, future contribution income will be recognized in annual installments as the conditions of the gift are met.

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(In thousands)

(10) Transfer of Assets and Liabilities from the Trust to the Foundation

The Trust and the Foundation executed an Asset Transfer and Acceptance Agreement, which provided that effective January 1, 2007 the Trust would transfer to the Foundation all tangible and intangible assets, other than specifically identified excluded assets. In addition, the agreement provided that the Foundation would assume from the Trust all obligations arising from assumed contracts, transferred employees, and any accounts payable in the ordinary course of business, excluding any taxes payable by the Trust and certain obligations specifically excluded under the agreement. The effect of this agreement was that all endowment assets and associated obligations, including taxes, remain on the books of the Trust while all other property, equipment, contracts, employees, programs, grants payable, and other operating matters transfer to the Foundation. This transfer took effect on January 1, 2007 at which time \$19,782 and \$3,418,813 in assets and liabilities, respectively, were transferred from the Trust to the Foundation. Beginning in 2007, the fundamental role of the Trust is to manage the endowment assets and transfer proceeds to the Foundation, as required by the Foundation's charitable goals. The fundamental role of the Foundation is to carry out its charitable and programmatic goals, with funding for those activities to be received from the Trust. Transfer of assets and liabilities on January 1, 2007 comprised the following:

Assets:		
Cash and cash equivalents	\$	5,866
Noncash items:		
Prepaid expenses and other assets		1,237
Property and equipment, net		12,679
Total assets		<u>19,782</u>
Liabilities:		
Accounts payable		(16,885)
Accrued and other liabilities		(11,469)
Accrued grants payable, net		(3,390,459)
Total liabilities		<u>(3,418,813)</u>
Net liabilities transferred	\$	<u>(3,399,031)</u>

(11) Investment Performance Risk

Major U.S. and foreign equity and fixed income indices, including the S&P 500, MSCI EAFE, and the Lehman Aggregate, have experienced volatility and, in some cases, significant declines. Management is monitoring investment market conditions and the impact such declines are having on the Trust's investment portfolio. Due to the volatility of the U.S. and world financial markets as of the date of this report, there is uncertainty regarding the long-term impact the current declines will have on the Trust's investment portfolio.