VANDERBILT UNIVERSITY

INVESTING CHARITABLE REMAINDER UNITRUSTS

Establishing a charitable remainder unitrust can be an excellent way to support Vanderbilt University and its mission while accommodating your own personal and philanthropic goals. With prudent planning, you may increase the size of your estate and/or reduce the tax burden on your heirs, while your visionary gift will make a meaningful and lasting contribution to Vanderbilt.

For more than 50 years, Vanderbilt has served as trustee for several charitable remainder unitrusts. As trustee, Vanderbilt recognizes the responsibility of managing the unitrusts to serve the interests of both the income beneficiaries and the university as remainder beneficiary.

Vanderbilt offers two investment options for the unitrusts for which it serves as trustee: an **endowment strategy** and a **non-endowment strategy** which includes a balanced portfolio of stock and bond mutual funds. We encourage our donors to review the materials provided for each investment strategy and consult with their legal, tax or financial professionals to select the investment strategy that works best for them.

Endowment strategy

The core objective of Vanderbilt's endowment is to preserve and enhance purchasing power adjusted for inflation, in perpetuity, while providing a relatively predictable and stable stream of earnings without assuming undue risks. Vanderbilt's endowment has a long-term investment horizon, maintaining a highly diversified investment portfolio designed to mitigate the impact of downturns in any one sector of the economy. The endowment invests in many asset classes including public equities, hedge funds, commodities, fixed income, venture capital, private equity, natural resources and real estate. See reverse side to learn more about the appeal of Vanderbilt's endowment strategy.

Non-endowment strategy

For those donors who choose not to have their charitable remainder unitrusts invested under the endowment strategy, a second option is available. This strategy, which is managed by our partners TIAA Kaspick, invests in an array of low-cost mutual funds. Both the stock and bond allocations are broadly diversified across different asset classes and managers. This approach strikes a balance between stocks, whose higher risk can result in higher rewards, and bonds, whose lower risk can provide stability and preservation of principal. The indexing feature adds a measure of tax efficiency and stability, since index funds tend to have less turnover than actively managed funds. The trust portfolios are maintained in individual custody accounts at Charles Schwab & Co., Inc., and are periodically rebalanced, taking into account the tax impact of trades.

More information on the non-endowment strategy is included in the enclosed TIAA Kaspick overview.

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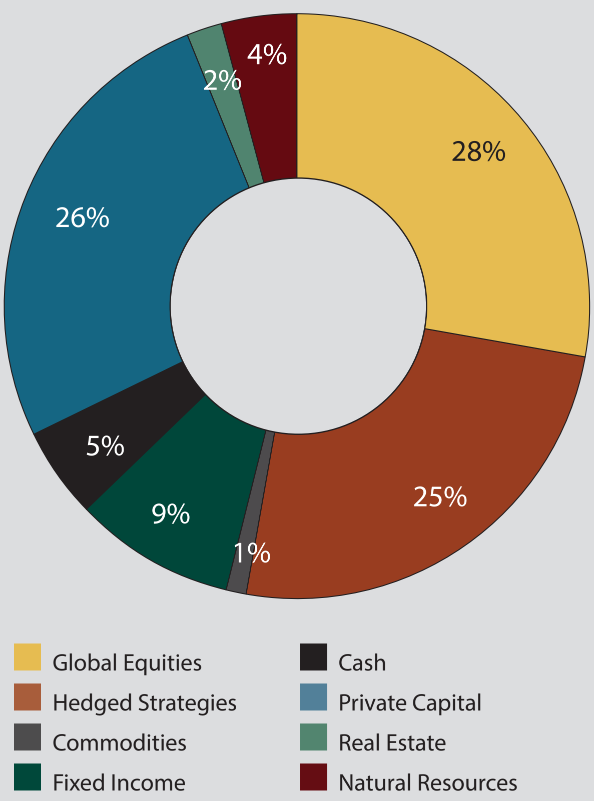
THE VANDERBILT ENDOWMENT AT A GLANCE

- Market value as of June 30, 2020: $6.9 billion
- Annual investment returns: *
  FY 2020: -0.1%
  FY 2019: 6.7%
  FY 2018: 12.6%
  FY 2017: 11.5%
  FY 2016: -4.3%
- Average annual compounded rate of return over the most recent five years: 5.1%

* These returns are net of internal investment office expenses in FY 2019 and FY 2020 but gross of internal investment office expenses in prior years.

ENDOWMENT ASSET ALLOCATION COMPOSITION

As of June 30, 2020



Why Choose the Endowment Strategy?

The appeal of the Vanderbilt endowment strategy is that charitable remainder unitrusts can achieve an investment performance similar to that of the Vanderbilt endowment. In addition, the unitrust can benefit from the endowment's exceptional diversification and access to numerous worldwide asset classes. Under a private letter ruling from the Internal Revenue Service (IRS) dated October 30, 2009, unitrusts may be invested alongside Vanderbilt's endowment and share in the endowment's returns.

When donors elect the Vanderbilt endowment strategy, unitrusts purchase units at the current market value per unit of the Vanderbilt endowment (units are valued monthly). For example, if the donors contributed $100,000 to establish the unitrust and each endowment unit is valued at $100 at that time, the unitrust will be assigned 1,000 endowment units ($100,000 ÷ $100 per unit = 1,000 units). Vanderbilt will maintain a small cash balance to ensure there is enough cash to make annual income payments to beneficiaries.

Vanderbilt's endowment will make quarterly distributions ("payout") from its earnings to the unitrust. Income beneficiaries will receive their annual income on a quarterly basis from the payout of the endowment, along with any interest earned on the cash held by the unitrusts, cash held by the unitrusts, and if applicable, the sale of a portion of the unitrusts' endowment units.

The IRS requires that the annual income represented by the payout from Vanderbilt's endowment, which may be the largest source of income, be taxed as ordinary income. Should the annual income amount paid to the income beneficiaries exceed the payout from the endowment, the excess may be taxed as ordinary income or another type of income, including capital gain. Donors must be aware that the objective for unitrusts invested under the Vanderbilt endowment strategy is not to minimize income tax for the beneficiaries. The main objective for the endowment is to invest for the long term/perpetuity.

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