The Arc of Indiana Master Trust
2008 Trust I Investments Report

2008 was a rough year for investments. Most investments declined anywhere from 30% to 50% of their value prior to 2008. The Arc of Indiana's investments for Trust I declined in value as well. Where historically Trust I has seen modest gains, in the 18 year period from 1995 to 2007, the average annual return was 8.02%. For 2008 the fund as a whole lost 23% of its value.

The Arc of Indiana made an adjustment in its overall investment strategy for Trust I in August of 2008. Prior to August 2008 the investment policy was: 5% in cash, 60% in equity and 35% in bonds (or fixed income). In August, The Arc of Indiana Board made a temporary adjustment in this policy to: 5% in cash, 45% in equity and 50% in bonds to try to lessen the losses that were occurring in the fund.

The Arc is reviewing the fund monthly, along with The National Bank of Indianapolis' investment advisor, The Arc Trust Advisory Committee, and The Arc of Indiana Board of Directors. We are committed to doing whatever it takes to not only protect the money that families have left for their loved ones, but to lessen the losses in the fund itself.

Trust I includes two investment objectives -- a long-term objective and a short-term objective. The long-term objective seeks the potential for capital appreciation. The short-term objective is to have enough funds available at all times to meet immediate requests for disbursements.

The short-term objective is achieved through use of a Money Market account. At December 31, 2008 approximately eight percent (8%) of Trust I was invested in a money market account. The total value of the fund at December 31, 2008 was $20,356,700.88. Thus, there was $1,633,832.63 set aside and available for meeting immediate requests for disbursements.

Where is the remaining ninety-two percent (92%)? Currently, thirty-six percent (36%) is invested in Taxable Bonds and Taxable Bond Mutual Funds, forty-nine percent (49%) is in Domestic, Balanced and Small Cap Mutual Funds and the remaining seven percent (7%) is invested in International Equities.

In 2007, the total return from this mix of stocks, bonds, mutual funds, and the money market account was +6.87%. Trust I assumes a total return from investments of 7% per year. This is an assumption. It is not a guarantee. The assumption of 7% is based on the historical average (over 70 years) for our mix of stocks, bonds, and money market funds.

The following is a list of the asset class of each investment in the Trust I portfolio:

Money Markets & Equivalents 8.05%
Taxable Bonds 11.93%
Taxable Bond Mutual Funds 24.22%
Domestic Mutual Funds 35.03%
Balanced Mutual Funds 9.85%
Small Cap Mutual Funds 3.87%
International Equities 7.06%

Conclusion

We believe this combination is prudent for investing. Our approach is intended to meet a beneficiary's immediate needs, but also has the potential for higher long-term return. (Historically, bonds have outperformed money market accounts, and stocks have outperformed bonds.) The value of higher long-term return? The higher the return, the more that can be spent for each beneficiary.

PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS