BERNSTEIN

Trumping Uncertainty

Examining the Implications of the ~~Heir Cuts and Odd Jobs Act~~ Tax Cuts and Jobs Act

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Bernstein does not provide tax, legal, or accounting advice. In considering the information contained in this presentation, you should independently verify all conclusions before implementing any strategy on your own behalf or on behalf of your client.

Road Map

- The current tax environment: Analyzing the transfer and income tax implications of lifetime wealth transfer strategies
- The applicable exclusion just doubled: Should my client use that now, before it sunsets . . . or is taken away?
- A few nontax considerations
- Case study: Tax-sensitive investor—the use of private placement life insurance to enhance after-tax returns
- Case study: Real estate investor—the use of valuation discounts with leveraged assets

Source: AB

The Current Tax Environment

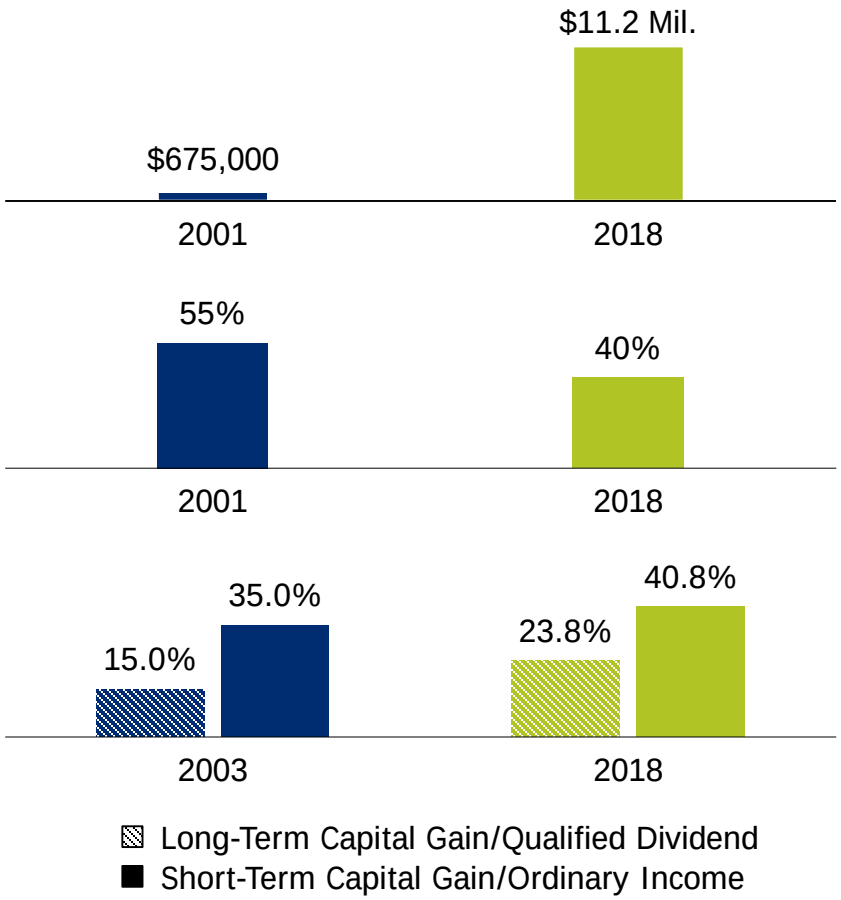
Comparison of Prior Law and Tax Cuts and Jobs Act

	2017	2018
Top marginal corporate income tax rate	35%	21%
Top marginal individual income tax rate	39.6%	37%, but up to 20% of domestic qualified business income is deductible
Surtax on net investment income	3.8%	Same
Alternative minimum tax	Applies to certain corporations and individuals	Higher exemption and phase-out thresholds, but most deductions are eliminated
Itemized deductions	Subject to “3% cutback”	“3% cutback” and most deductions repealed; state and local tax deduction limited to $10,000 per year
Estate and GST taxes	$5.49M inflation-indexed exclusion; 40% “flat” rate	Same, except 2x prior applicable exclusion amount through 2025
Step-up in income tax basis at death	Applies to all decedent’s estates	Same

Sources: https://www.congress.gov/congressional-report/115th-congress/house-report/466/1?overview=closed and AB

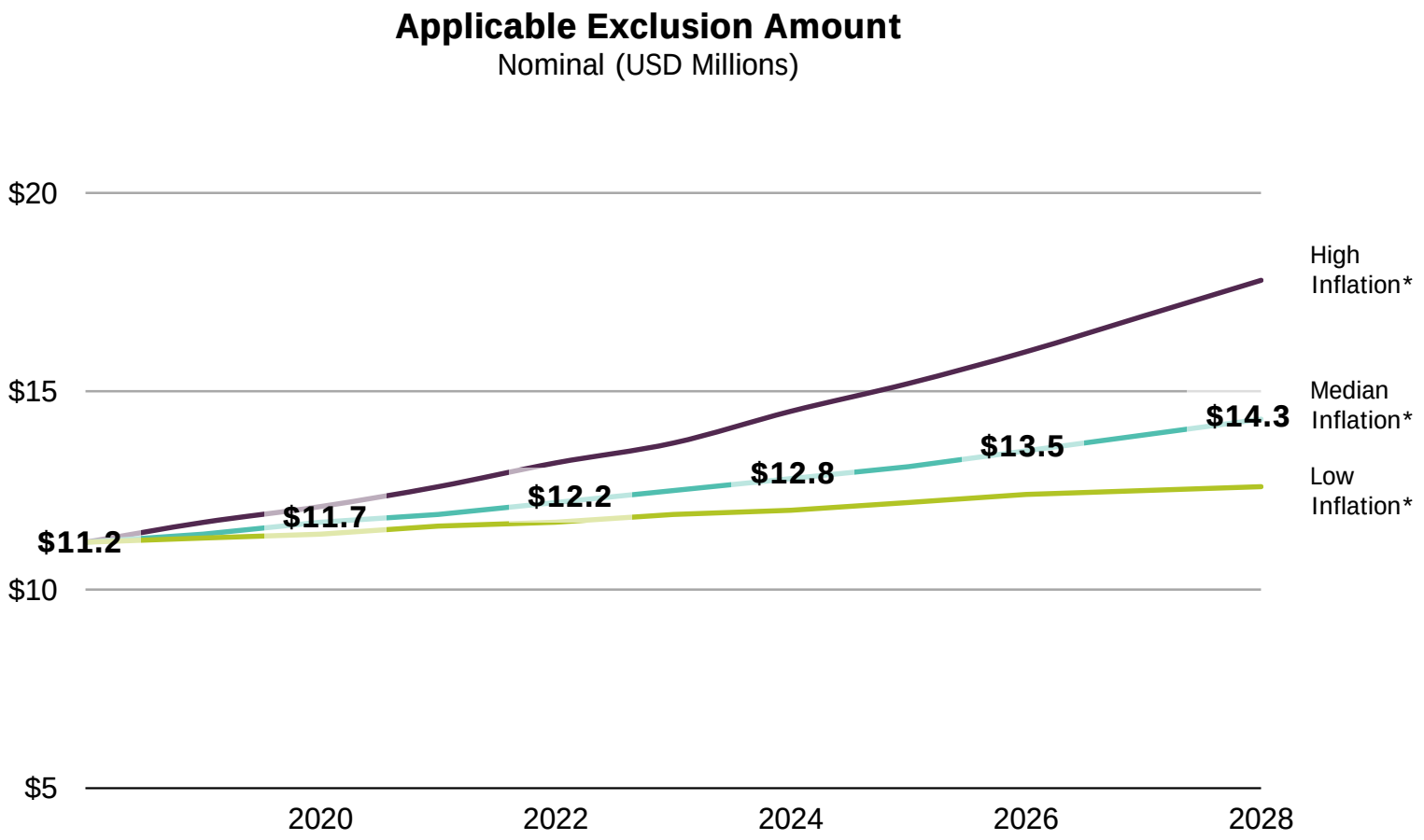
Federal Wealth Transfer and Income Taxes: Then and Now

- Applicable exclusion amount
- Transfer tax rate
- Income tax rates*



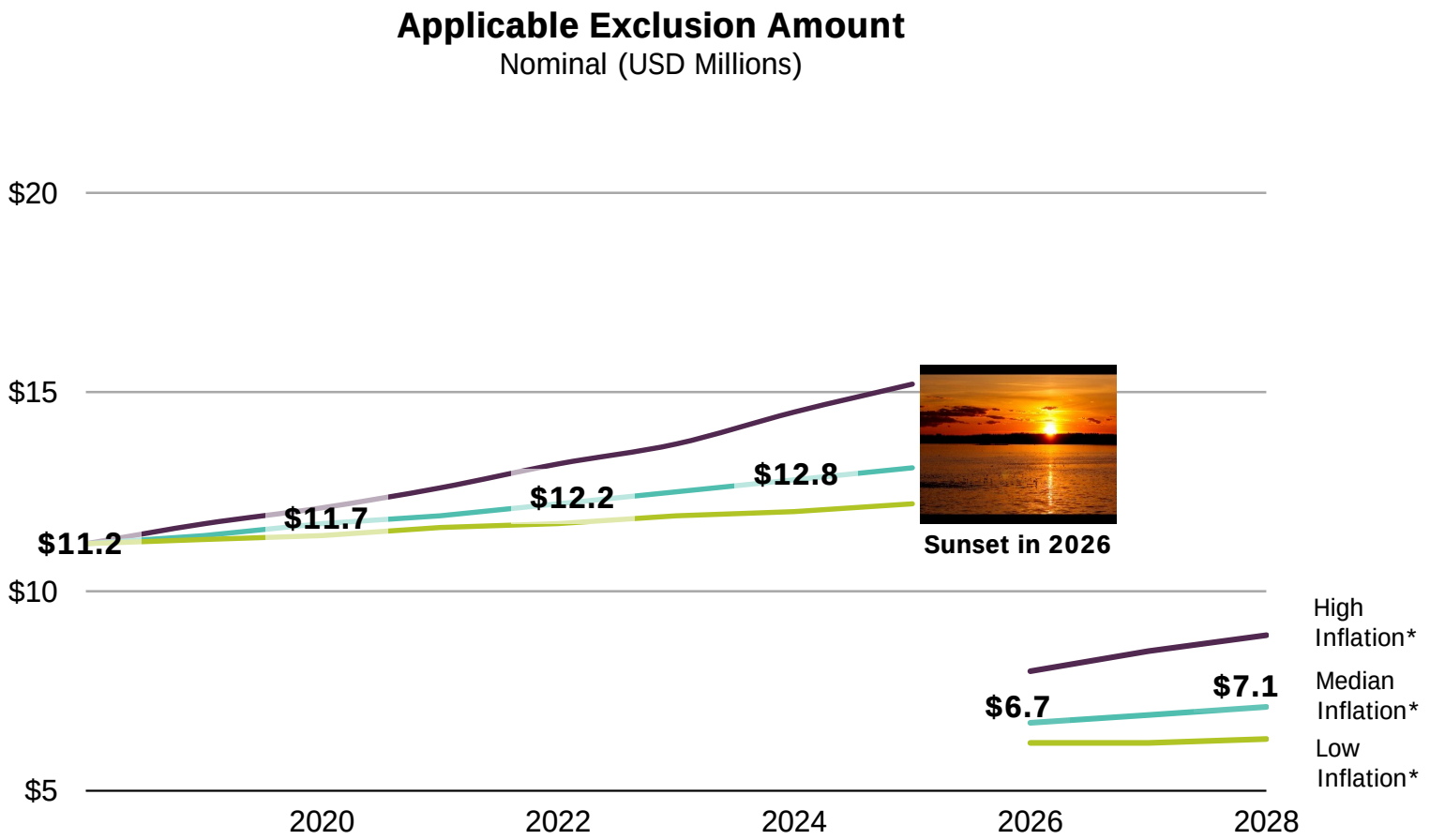
*The top income tax rates in 2018 include the 3.8% Medicare surtax on net investment income. The top ordinary income/short-term gain rate and qualified dividend/long-term gain rate in 2018 are 37% and 20%, respectively.
Sources: Internal Revenue Service (IRS) and AB

Projected Effect of Inflation on Applicable Exclusion . . .



*Based on increases in inflation, rounded to the nearest $100,000 in this display. Applicable exclusion amount shown is for an individual, based upon 10th ("high"), 50th ("median"), and 90th ("low") percentile outcomes for the inflation-adjusted applicable exclusion amount.
Based on Bernstein's estimates of the range of returns for the applicable capital markets. **Data do not represent past performance and are not a promise of actual results or a range of future results.** See Appendix, Notes on Wealth Forecasting System, for details.
Source: AB

. . . Unless We Get This



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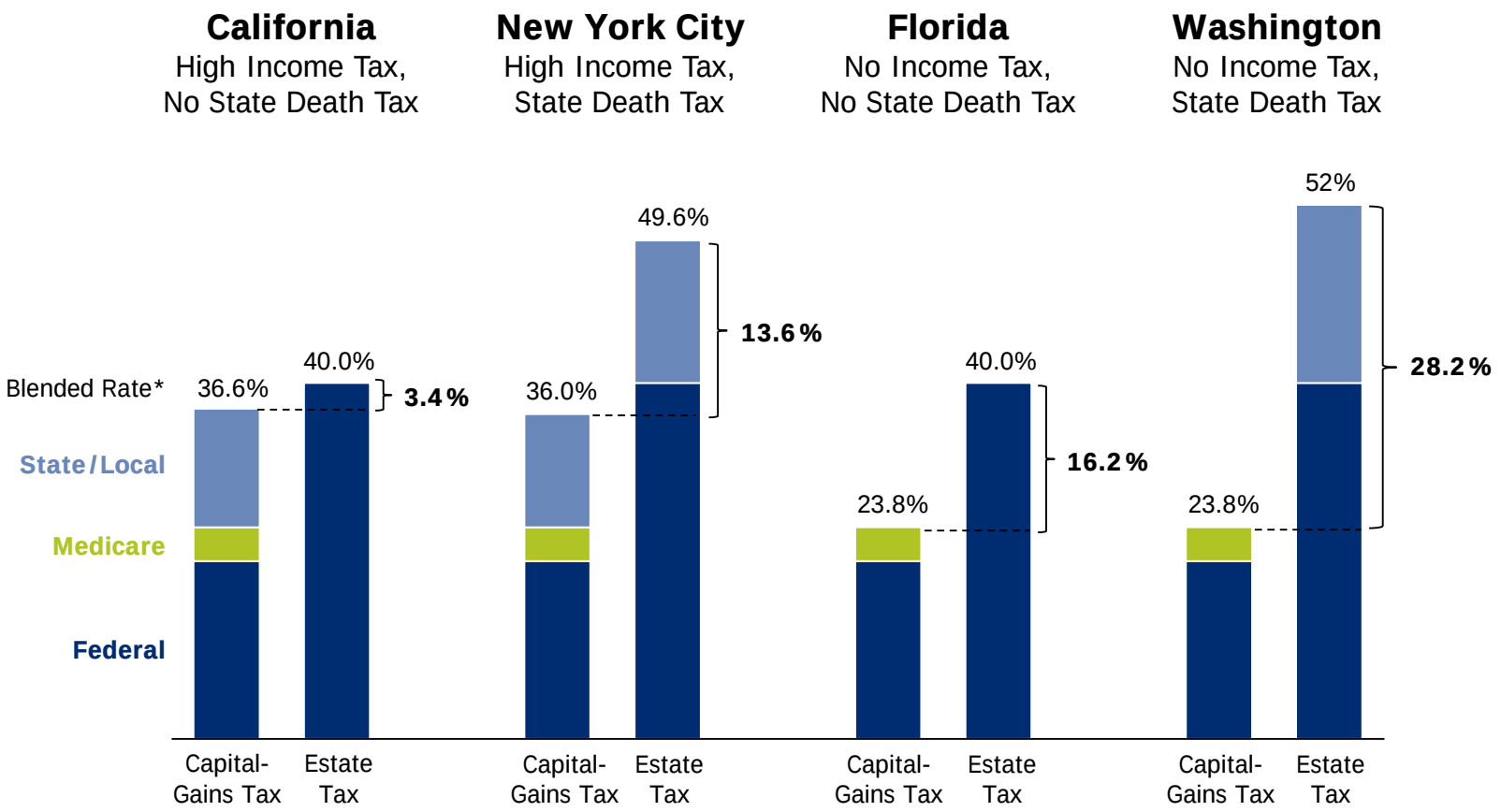
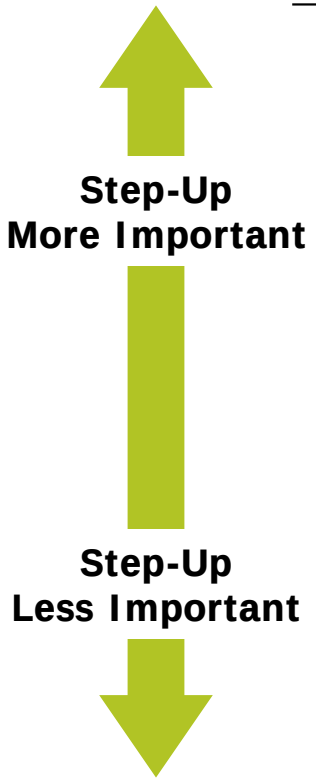
Source: AB

Tax Domicile of the Transferor–and Transferee–Matters



*Based on Health Care and Education Reconciliation Act of 2010, American Taxpayer Relief Act of 2012, and Tax Cuts and Jobs Act of 2017. Rates represent Bernstein's estimate of the top marginal tax, federal and state income, capital gain, and estate tax brackets. Blended rates assume that state and local income taxes are not deductible for federal income tax purposes, notwithstanding the $10,000 deduction allowance for state and local taxes (including real property taxes) under current law, but that the 3.8% Medicare surtax on net investment income is adjusted to reflect the offset for state or local income taxes paid.
Bernstein is not a legal, tax, or estate advisor. Investors should consult these professionals as appropriate before making any decisions.
Sources: www.taxfoundation.org, IRS, and AB

Some Assets Will Benefit from Step-Up; Others May Not



Asset Type	Tax Characteristic*
Creator-Owned Copyrights, Trademarks, Patents, and Artwork	Ordinary → Long-Term
Negative-Basis Commercial Real Property LPs	Ordinary and Long-Term
Artwork, Gold, and Other Collectibles	28% Long-Term
Low-Basis Stock	20% Long-Term
Roth IRA Assets	Tax-Free
High-Basis Stock	Minimal Gain
Bonds	Typically Minimal Gain
Cash	Basis = Face Value
Depreciated Stocks	Capital Loss Erased
Variable Annuities	Partially IRD**
Traditional IRA and Qualified Plan Assets	100% IRD**

*Tax rates cited below do not include the 3.8% Medicare surtax on net investment income.
**"IRD" means income in respect of a decedent.
Source: AB

Consider Likely Post-Transfer Appreciation, Not Just Gap Between Effective Estate and Capital-Gains Tax Rates

Is anticipated $[A_{pt} \times T_e] > [T_{cg} \times \{(V - B) + A_{pt}\}]$?;

where:

A_{pt} = Post-transfer appreciation;
T_e = Transferor's effective estate tax rate
T_{cg} = Transferee's effective income tax rate
V = Current asset value
B = Current adjusted basis

Expected timing of transaction and transferor's death are also key variables

Source: AB

Consider Likely Post-Transfer Appreciation, Not Just Gap Between Effective Estate and Capital-Gains Tax Rates

Is anticipated $[A_{pt} \times T_e] > [T_{cg} \times \{(V - B) + A_{pt}\}]$?;

where:

Consider potential impact of increased exclusion on effective estate tax rate

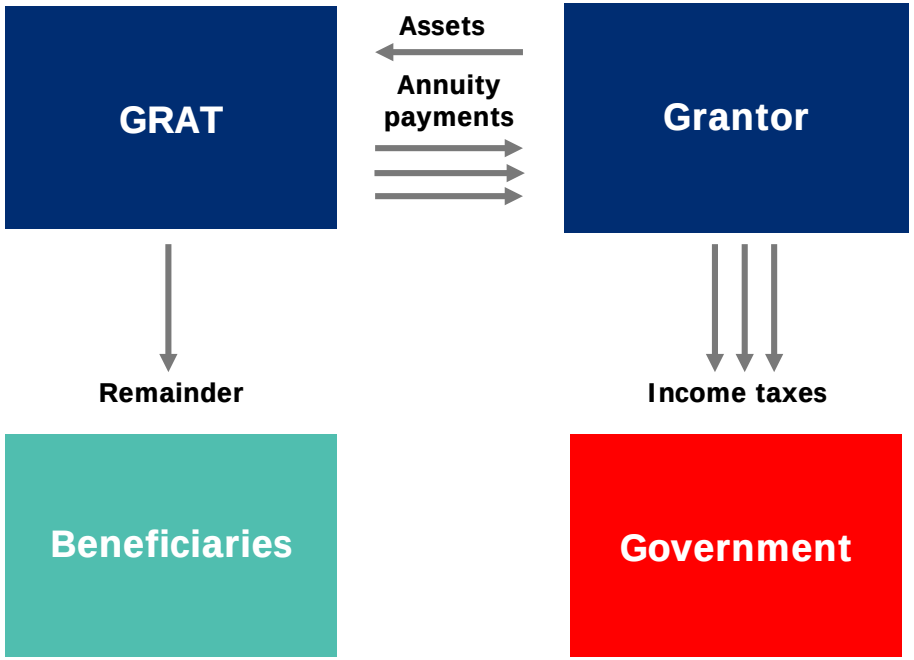
A_{pt} = Post-transfer appreciation;
T_e = Transferor's effective estate tax rate
T_{cg} = Transferee's effective income tax rate
V = Current asset value
B = Current adjusted basis

Expected timing of transaction and transferor's death are also key variables

Source: AB

To Give . . . or to GRAT?
That Is the Question

How Grantor Remainder Annuity Trust (GRAT) Works



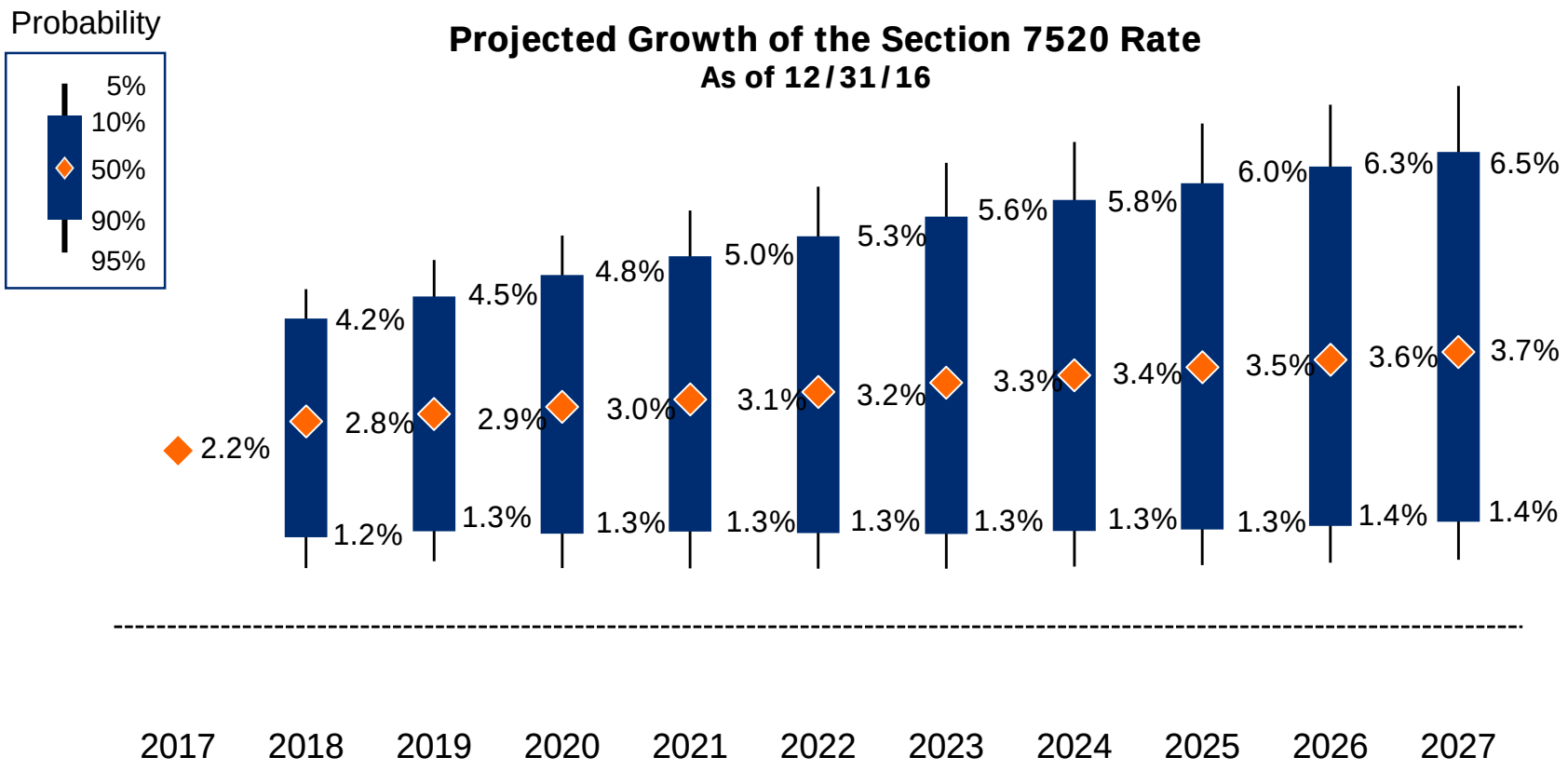
Key points:

- Grantor transfers assets to GRAT
- Grantor receives annuity payments from trust during annuity term
- Grantor pays taxes on trust income
- If GRAT assets grow faster than Section 7520 rate (2.6% in January 2018), excess passes to Beneficiaries at end of annuity term free of gift tax
- If desired, "Beneficiaries" may be limited to Grantor's spouse or irrevocable trust established for his/her benefit; if properly structured, assets in that trust should avoid estate tax at Grantor's death and at Beneficiaries' deaths

If Grantor fails to survive annuity term, full date-of-death value of GRAT assets may be subject to estate tax

*If present value of annuity stream retained by Grantor equals value of assets contributed to trust, grantor makes no gift for gift tax purposes; GRAT is said to be "zeroed out."
For illustrative purposes only; not an advertisement and does not constitute an endorsement of any particular wealth transfer strategy. Bernstein does not provide legal or tax advice. Consult with competent professionals in these areas before making any decisions.
Source: AB

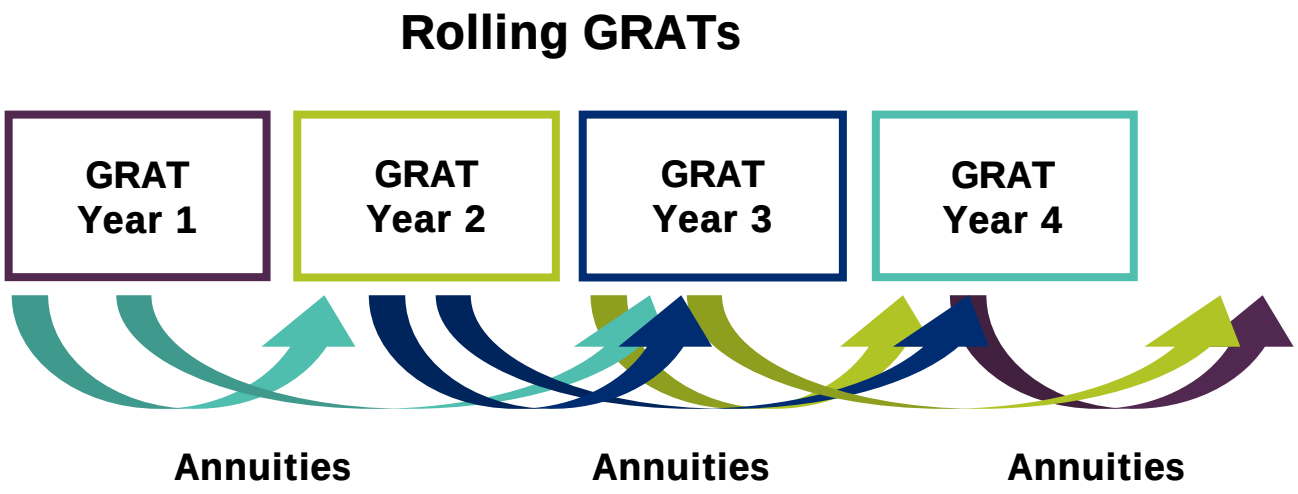
Give-Now-and-GRAT-Later Might Be a Viable Strategy if Interest Rates Were Flat or Declining . . . But They're Not



Based on Bernstein's estimates of the range of returns for the applicable capital-market over the next 10 years. Data do not represent past performance and are not a promise of actual future results or a range of future results. See Appendix, Notes on Wealth Forecasting, for details.
Source: AB

Refinement: Short-Term Rolling GRATs

- Contribute initial assets to first of a series of two-year GRATs
- Annual payouts are contributed to new two-year GRAT each year
- Any appreciation above the Section 7520 rate in each trust passes tax-free to or for the benefit of the remainder beneficiaries*



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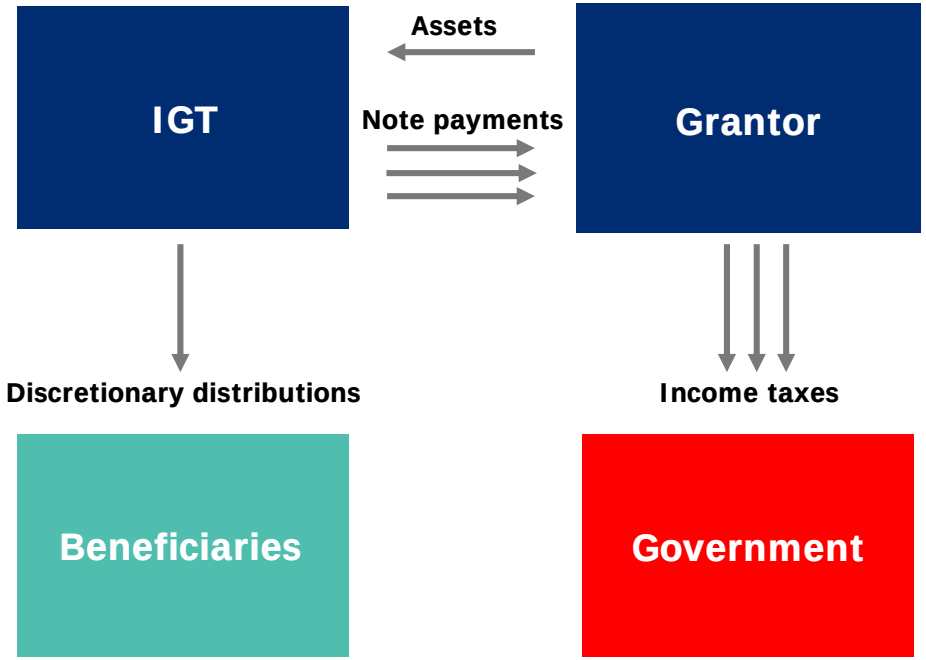
Source: AB

How Installment Sale to Irrevocable ("Intentionally Defective") Grantor Trust Works



Key points:

- Over time, Grantor transfers assets to IGT
- Collectively, transfers are treated as part-gift (10%), part-sale (90%)
- In exchange for assets sold, Grantor receives promissory note; interest payable annually for eight years, with principal and final interest installment due upon maturity in 2026
- Until then, Grantor pays all income taxes on behalf of IGT and its beneficiaries
- Annual growth in excess of mid-term AFR (2.18% in January 2018) may avoid gift, estate, and GST taxes*

If transaction is structured properly and Grantor fails to survive note term, value of note (*not assets sold*) will be subject to estate tax at Grantor's death

*Potential benefit to trust and its beneficiaries equals post-transfer growth of assets given, plus growth of assets sold in excess of interest payable. "AFR" means applicable federal rate, annual compounding, as published by the Treasury Department. The mid-term AFR applies to fixed debt having a term greater than three years, but not greater than nine years; the long-term AFR applies to longer term loans; the short-term AFR to shorter term loans.

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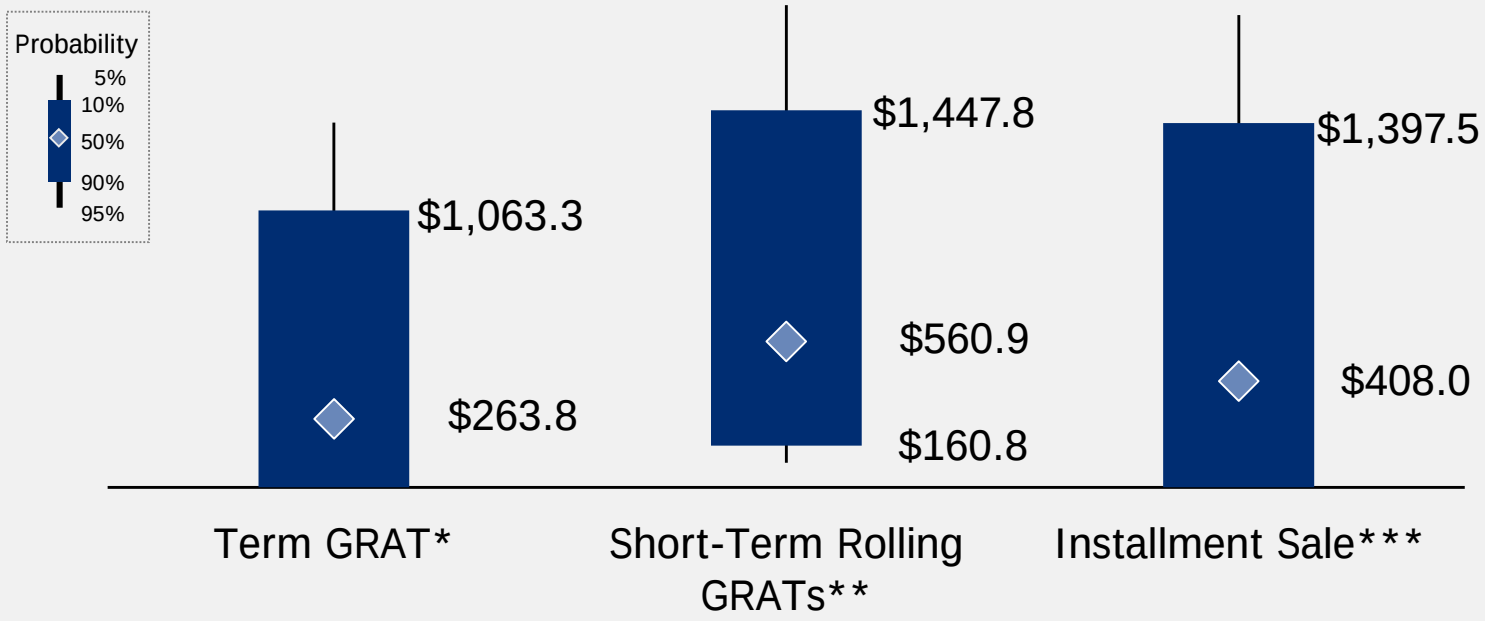
Source: AB

Rolling GRATs Generally Outperform Term GRAT or Installment Sale, But Are Subject to Legislative Risk and Interest-Rate Risk

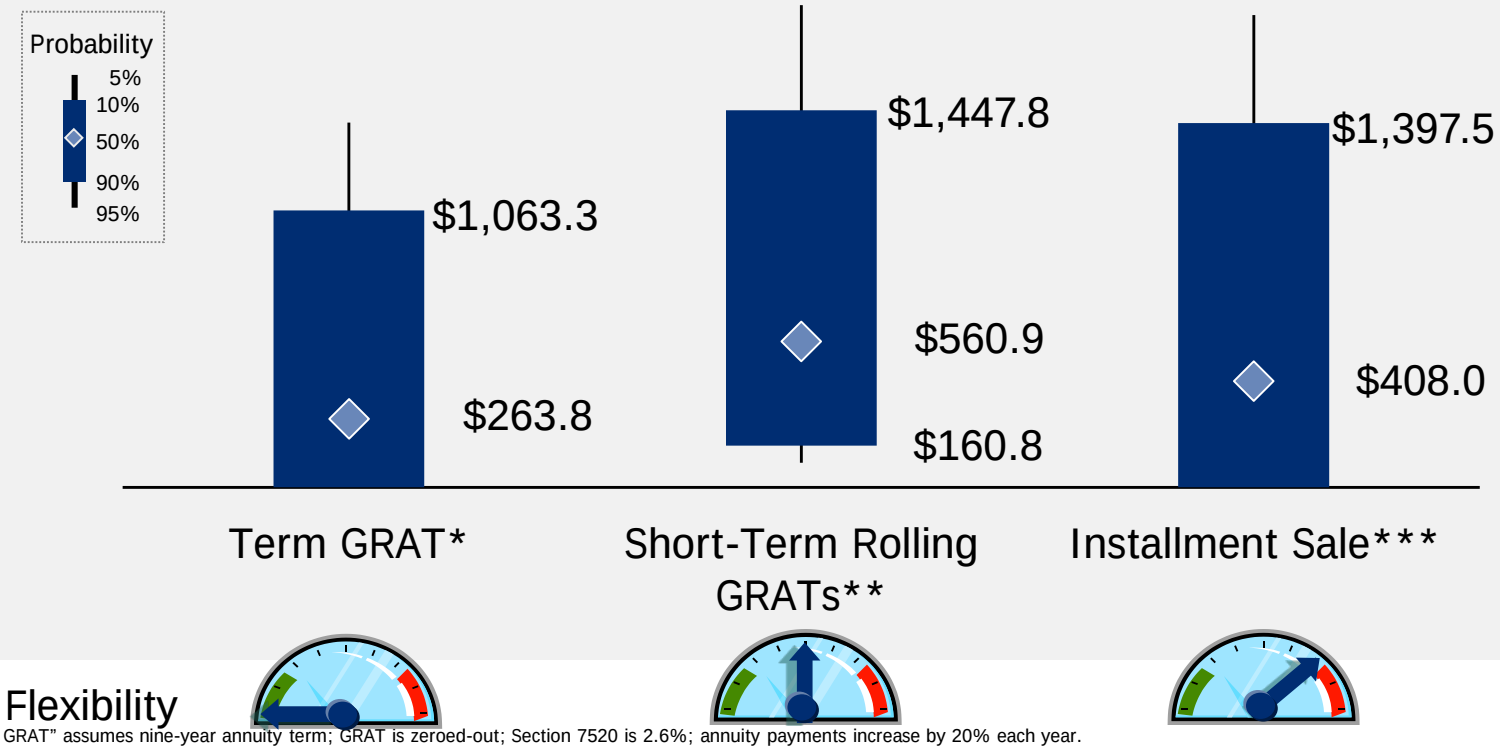
Range of Remainder Values: Per $1 Million Contributed – Year 9
$ Thousands, Real



*"Term GRAT" assumes nine-year annuity term; GRAT is zeroed-out; Section 7520 is 2.6%; annuity payments increase by 20% each year.
**"Short-Term Rolling GRATs" assumes series of two-year GRATs; each GRAT is zeroed-out; initial Section 7520 rate is 2.6%; level annuity payments each year. Subsequent GRATs are funded with annuities from existing GRATs; Section 7520 rate for each subsequent GRAT is determined using Bernstein's wealth forecasting model. For each GRAT, any assets remaining at end of annuity term are transferred to irrevocable grantor trust (IGT).
***"Installment Sale" assumes assets are sold to IGT in exchange for nine-year promissory note, bearing interest at 2.1% payable annually, with balloon payment of principal upon maturity. Creditworthiness is assumed to be provided by existing trust assets or guarantees, rather than through a gift of "seed capital."
Based on Bernstein's estimates of the range of returns for the applicable capital markets over the next nine years. All portfolios invest in globally diversified equities. Data do not represent past performance and are not a promise of actual future results or a range of future results. Asset values represent estimated liquidation value net of capital gains tax assuming top federal tax rates. See Appendix, Notes on Wealth Forecasting System, for details. Bernstein does not provide legal or tax advice. Consult with competent professionals in these areas before making any decisions.
Source: AB

Is the Likely Outperformance of Rolling GRATs Worth the Loss of Flexibility?

Range of Remainder Values: Per $1 Million Contributed – Year 9
$ Thousands, Real



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Source: AB

Favor Leveraged Transactions Over Applicable Exclusion Gifts . . . For Now

Installment Sale or Loan at AFR	Applicable Exclusion Gift
■ Scalable	■ Limited to available exclusion

■ "Reversible": A sale or loan can be
  ■ Unwound or
  ■ Converted to a gift in whole or in part by forgiving the debt
	■ Irreversible

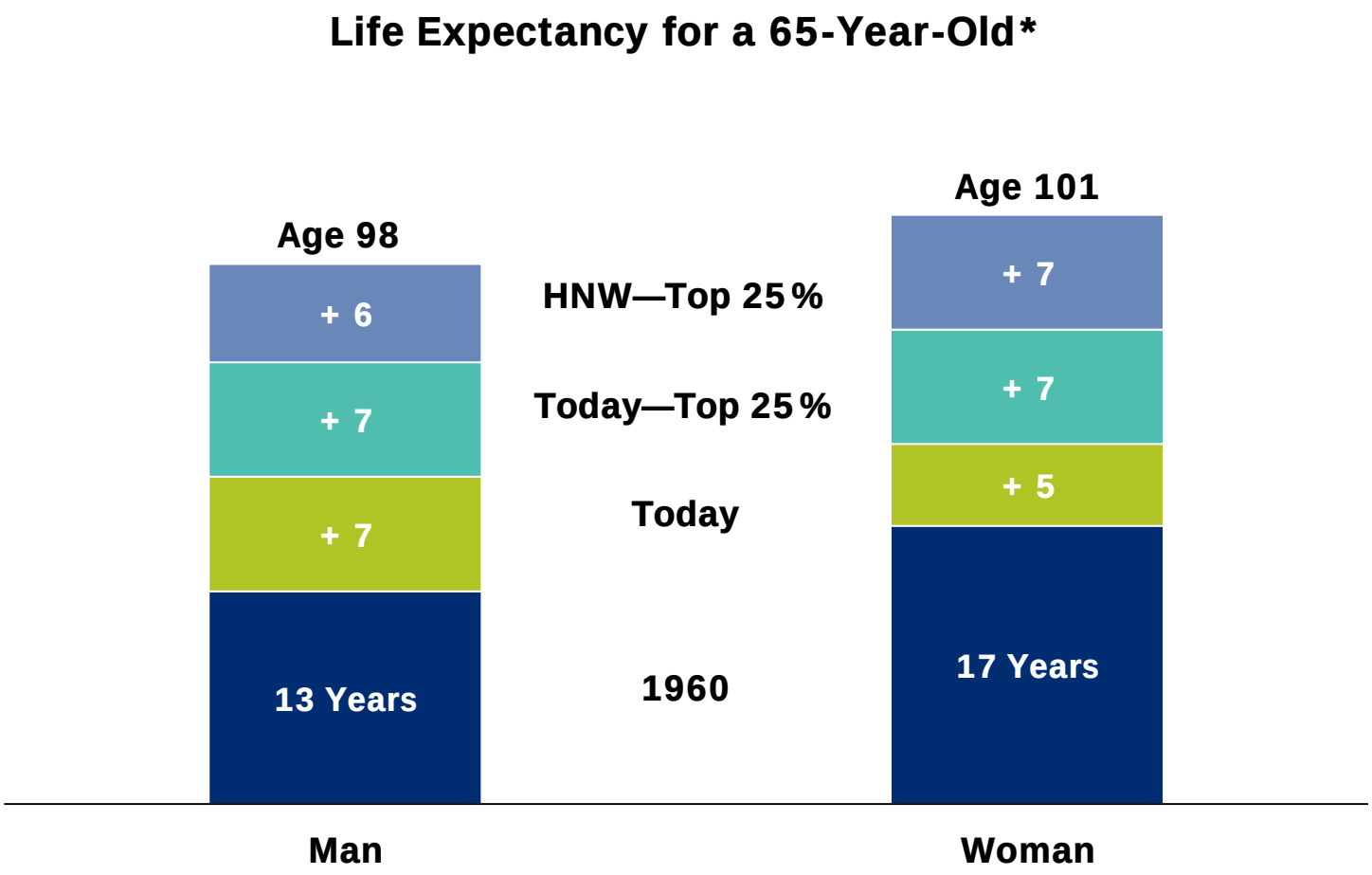
■ Key driver (interest rates) are likely to rise, which may dilute the effectiveness of the strategy if postponed	■ Key driver (higher applicable exclusion amount) is likely to remain in effect until at least early 2021
■ "Free" step-up in basis at death is preserved	■ "Free" basis step-up at death is impaired

Simpler is <u>not</u> always better

Source: AB

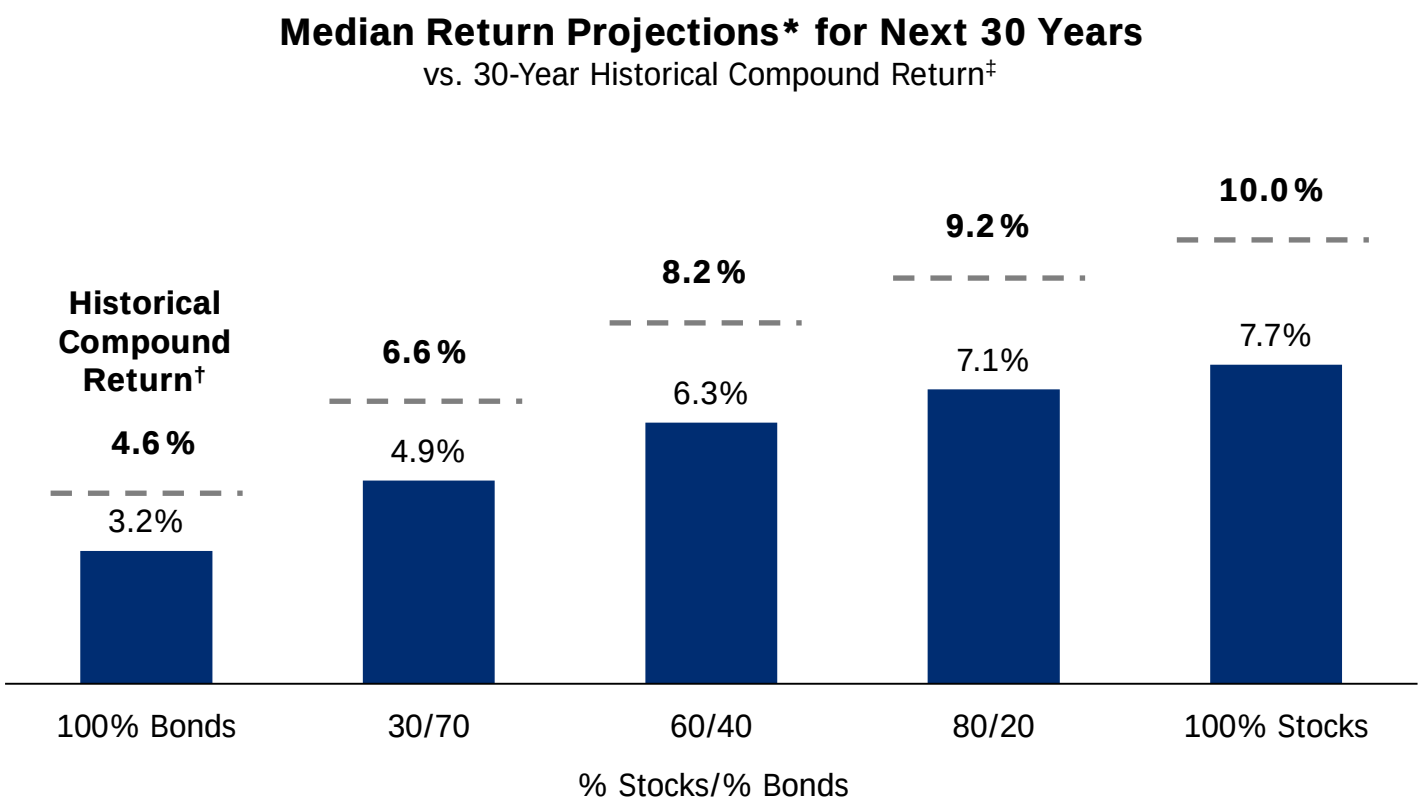
Some Nontax Issues to Think About

People Are Living Longer



*Sources: Social Security Administration, Society of Actuaries, and M Financial Group

Future Returns Are Likely to Be Lower



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*Projected pretax 30-year compound annual growth rate. Stocks (or "global equities") are modeled as 21% US diversified, 21% US value, 21% US growth, 7% US small-/mid-cap,22.5% developed international, and 7.5% emerging-market stocks, and bonds are modeled as intermediate-term diversified municipal bonds. Reflects Bernstein's estimates and the capital-market conditions as of December 31, 2015.
‡Historical compound return calculated from January 1, 1986, through December 31, 2015 with equities represented as follows: 70% S&P 500 and 30% MSCI EAFE from 1986 through 1987, and 70% S&P 500, 25% MSCI EAFE, and 5% MSCI EM thereafter; bonds represented by the Lipper Short/Intermediate Municipal Bond Fund Average.
Sources: Lipper, MSCI, Standard & Poor's, and AB

Wealth Transfer Framework: Key Questions Post TCJA

Lifestyle Spending

Personal Reserve

Core Capital

- How likely is it that core assets needed to support lifestyle will be less than the inflation-indexed applicable exclusion over time?
- Does the doubling of the exclusion provide an opportunity to reserve more for contingencies, like long-term care?

Extra Spending

Opportunistic

Children Grandchildren

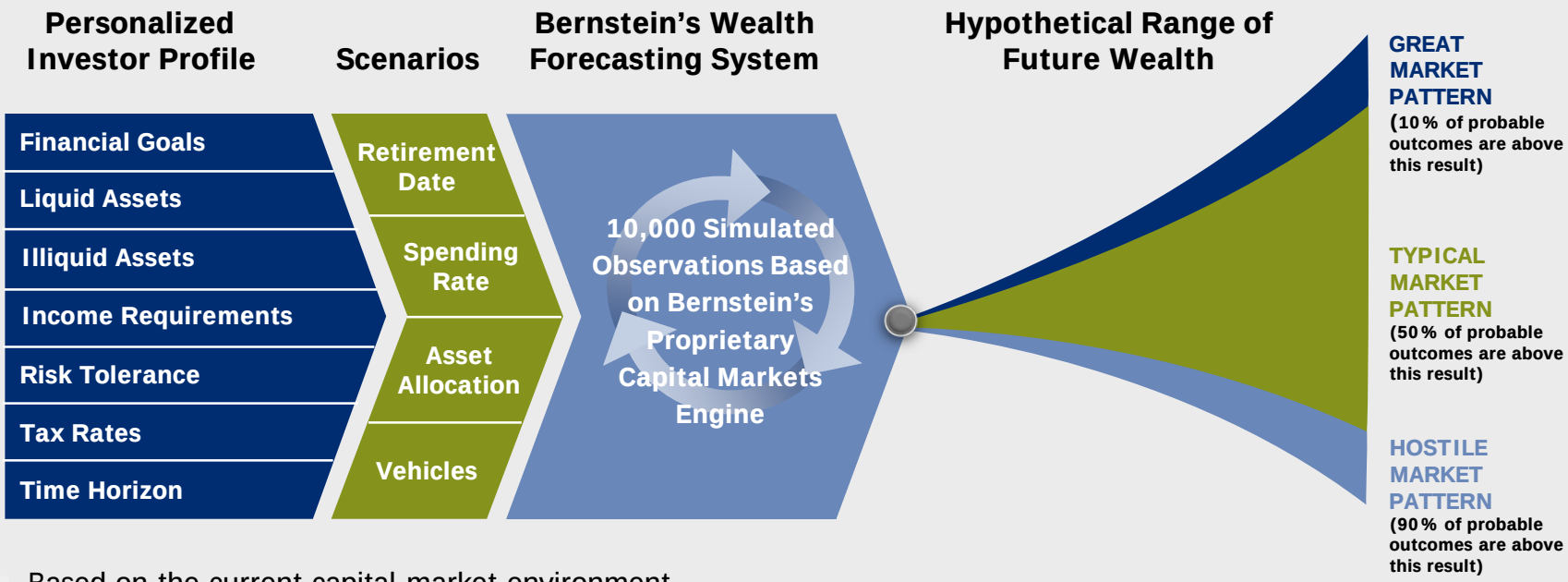
Charity

Surplus Capital

- How much (if any) can stay in the estate and capture a basis step-up at death—without estate tax exposure?
- What are the income tax characteristics of capital earmarked for wealth transfer?
- What are the income tax consequences to the beneficiary upon liquidation?
- Can grantor trusts be used to facilitate periodic repositioning of assets, based on potential for growth and favorable income tax characteristics?

Source: AB

Forecasting Model



- Based on the current capital-market environment
- Customized to analyze expected financial outcomes of scenarios of your choice
- Incorporates various account types and planning vehicles
- Predicts likelihood of meeting long-term goals, reflecting what is known and unknown

Bernstein's Wealth Forecasting System℠ is based upon our proprietary analysis of historical capital-market data over many decades. We look at variables such as past returns, volatility, valuations, and correlations to forecast a vast range of possible outcomes relating to market asset classes, not Bernstein portfolios. While there is no assurance that any specific outcome suggested by the model will actually come to pass, by quantifying the possibilities of achieving financial goals under changing, and sometimes extreme, capital-market conditions, the tool should help our clients make better choices. See Notes on Wealth Forecasting System at the end of this presentation for further details.
Source: AB

Case Study: Tax-Sensitive Investor

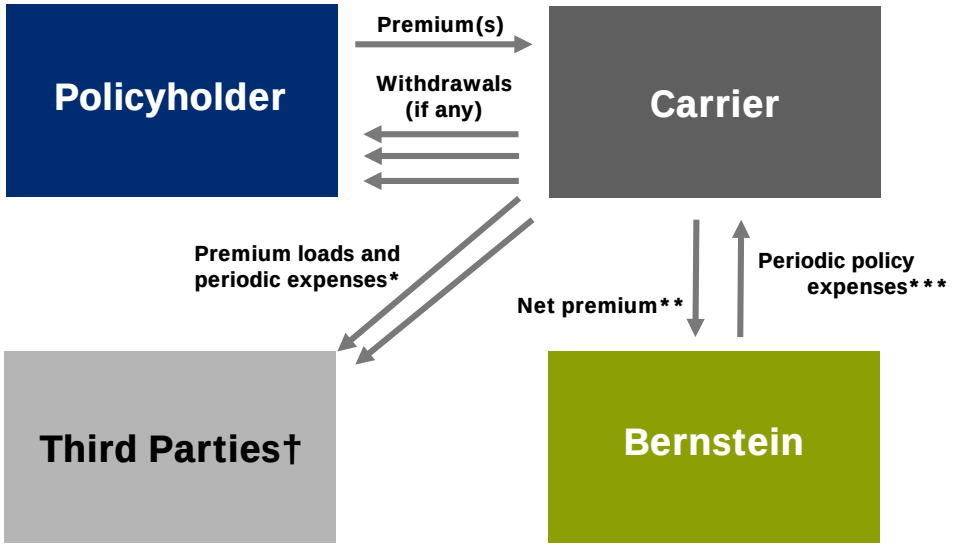
Tax-Sensitive Investor Case Study Assumptions

- Investor, Walter, age 60 and a New York City resident, is concerned about the future return potential of his traditional stock and bond portfolio
- He would like to invest $10 million of surplus capital in an array of potentially high-returning, “targeted” investment opportunities, but is unwilling to bear the considerable future income tax liabilities associated with some of those investment services
- It has been suggested that wrapping the more tax-inefficient of these investments in low-cost, “private placement” variable universal life (PPVUL) insurance may be a solution, but Walter is not a fan of life insurance

What does “low-cost” mean? Is it essential to get “best pricing”? Is the income tax savings worth the complexity?

Source: AB

PPVUL Financial Structure and Tax Issues



Key tax issues:

- Every state assesses a premium tax (generally 2%, but some states charge much less) at inception
- If properly structured, income tax on portfolio gains should be deferred
- In a modified endowment contract (MEC), withdrawals are taxed based on LIFO—just like an annuity
- In a non-modified endowment contract (non-MEC), withdrawals are taxed based on FIFO (i.e., withdraw to basis free of income tax, then borrow the balance from the carrier at modest interest rate, also tax-free)

At death, full death benefit (1) ordinarily is income-tax-free, but (2) subject to estate tax unless the insured then possesses no "incidents of ownership" over the policy (e.g., irrevocable life insurance trust)

*"Premium loads" typically are (a) 0.08% to 2%+ state premium tax; (b) 1% deferred acquisition cost (DAC) tax; (c) 1-2% compensation to the licensed agent who sold the policy; and (d) $2,000 or $3,000 underwriting fee.
**"Net premium" means total premium paid, less initial premium loads.
***"Periodic contract expenses" generally are (a) 0.35% to 0.75% annual mortality and expense (M&E) risk charge assessed against the policyholder's account value, a portion of which the carrier may allocate to the licensed agent who sold the policy; (b) 0.12% to 0.4% (based on account value) costs of insurance (COIs) to compensate the carrier for risk of death within the next 12 months; and (c) modest policy administration fees. COIs actually are calculated based upon the net amount at risk (NAR), which is the difference between the death benefit and the account value, but is expressed in this footnote based upon its approximate relationship to account value.
†"Third Parties" means (a) the state where the policy is sold (as to premium tax) and (b) the licensed agent who sold the policy (who receives a fraction of the annual M&E risk charge, usually for a period not exceeding 10 years).
Sources: Lombard International, AB

Potential Benefits of PPVUL

- General value proposition: Take advantage of the income tax deferral opportunity in a low-cost life insurance policy

- Works best when one or more of the following circumstances exists
  - Investor anticipates a high blended federal and state income tax rate on portfolio income
  - Underlying investments are taxed at ordinary, rather than capital gain, income tax rates (e.g., high turnover rate, nonqualified dividends, taxable interest)
  - Long time horizon / investor doesn't anticipate needing access to portfolio assets or income any time soon
  - Cumulative cost of insurance "wrapper" is low relative to projected portfolio income taxes

Source: AB

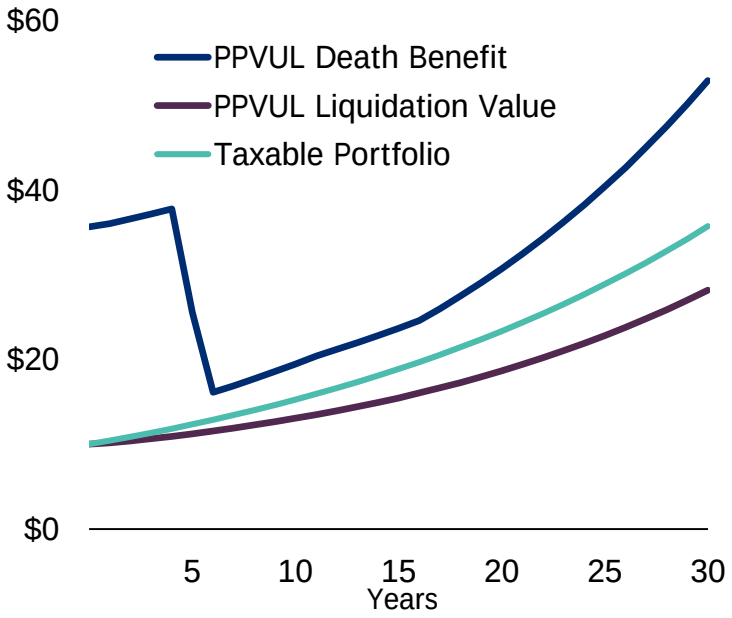
Overview of Product Features

- Purchase of a PPVUL policy generally is limited to
  - Qualified purchasers (QPs)
  - Accredited investors (AIs)
- Insurance carrier may provide investment options (including hedge funds) that are not available in traditional annuity and insurance products
- Product loads and periodic charges are considerably lower than most retail life insurance products
- Fully transparent structure
- No surrender charges

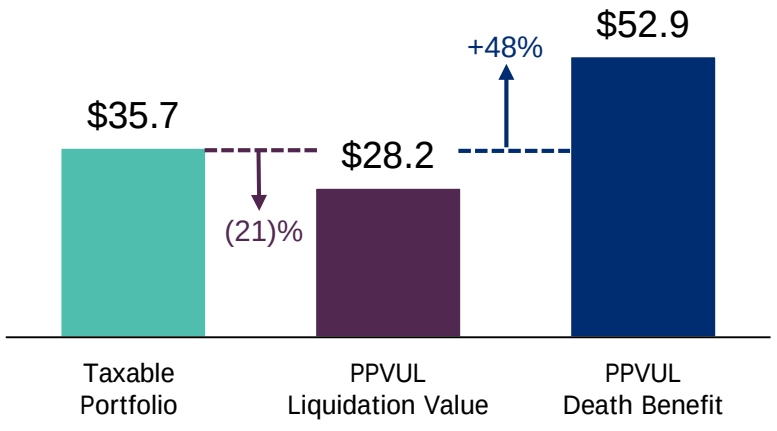
Source: AB

Traditional Stock and Bond Portfolio*: Either Structure as a Non-MEC . . . or Wait For the Death Benefit

Growth of $10 Million
Post Liquidation, Net of Tax
$Millions

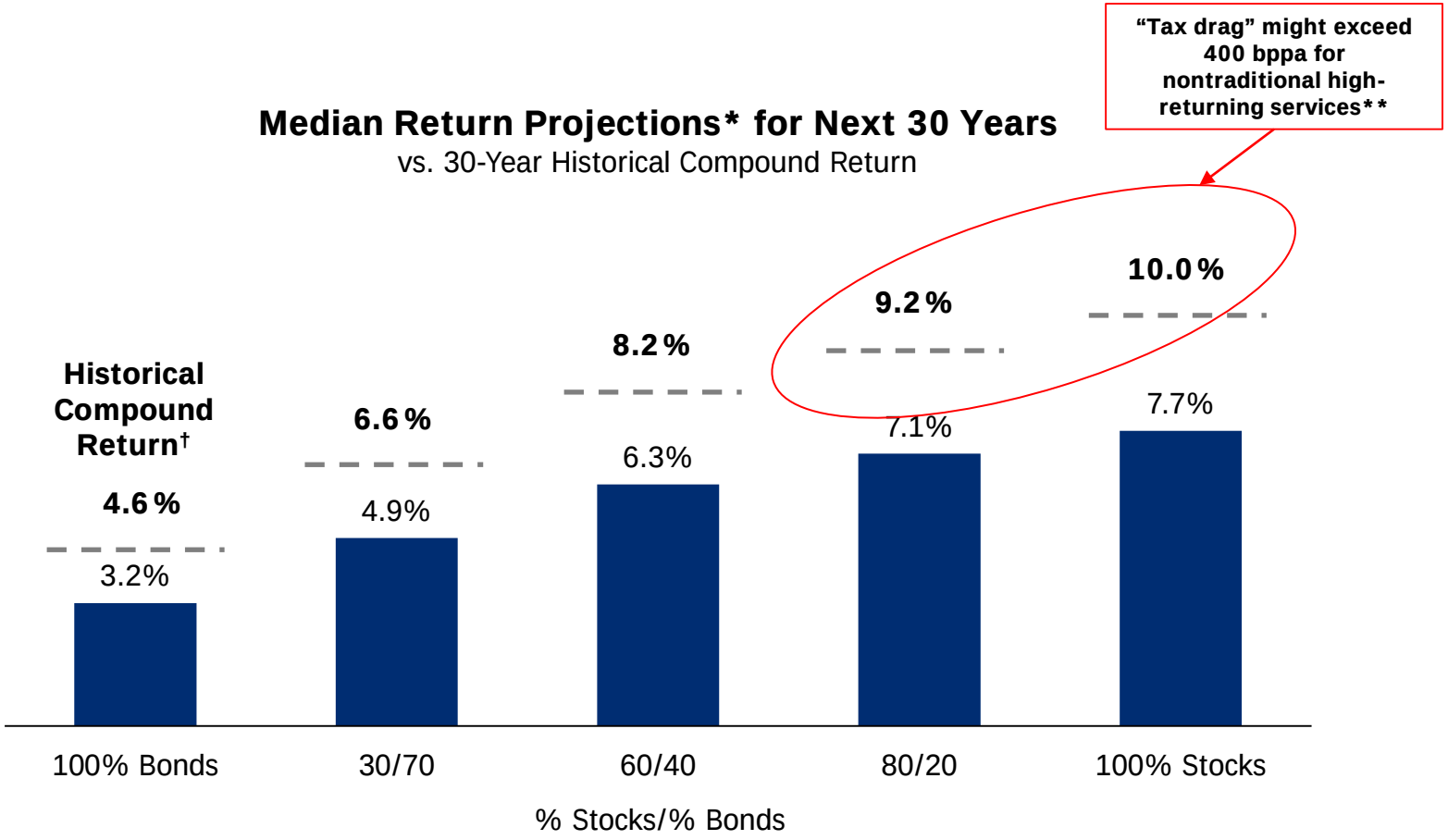


Portfolio Values at Year 30
Post Liquidation, Net of Tax
$Millions



*Assumes 6.5% return each year, consisting 2/3 of long-term capital gains with a 3-year holding period and 1/3 qualified dividends. Income taxes computed at an effective ordinary income / short-term capital gain tax rate of 55% and an effective long-term capital gain / qualified dividend tax rate of 35%. For each year depicted, "Taxable Portfolio" is the value of the portfolio net of taxes due for income, realized capital gains and unrealized capital gains. For each year depicted, "PPVUL Liquidation Value" is net of ordinary income tax for embedded growth of PPVUL policy (cash value). "PPVUL Death Benefit" represents the death benefit (no tax). PPVUL Assumptions – Insured: Male, Age 60, Preferred; Situs: Delaware; Modified Endowment Contract (MEC); Face Amount: $25,680,000; Investment: $10,000,000; Policy Underwriting Charge: $2,000; Premium Load Components – Year 1: $227,000 Total (Federal DAC Tax: $100,000, State Premium Tax: $2,000, Distribution Charge: $125,000); Annual M&E (assessed on Total Account Value): $10,000,000 to $40,000,000 = 0.45%, $40,000,000 and above = 0.35%; Annual COI (Cost of Insurance): cost of providing death benefit. Data do not represent past performance and are not a promise of actual future results or a range of future results.
Based on AB analysis and illustration provided by insurance provider. AB is not a legal, tax, estate, or insurance advisor. Investors should consult these professionals as appropriate before making any decisions.

Historical Returns Are Achievable … But Probably at High Income Tax Cost



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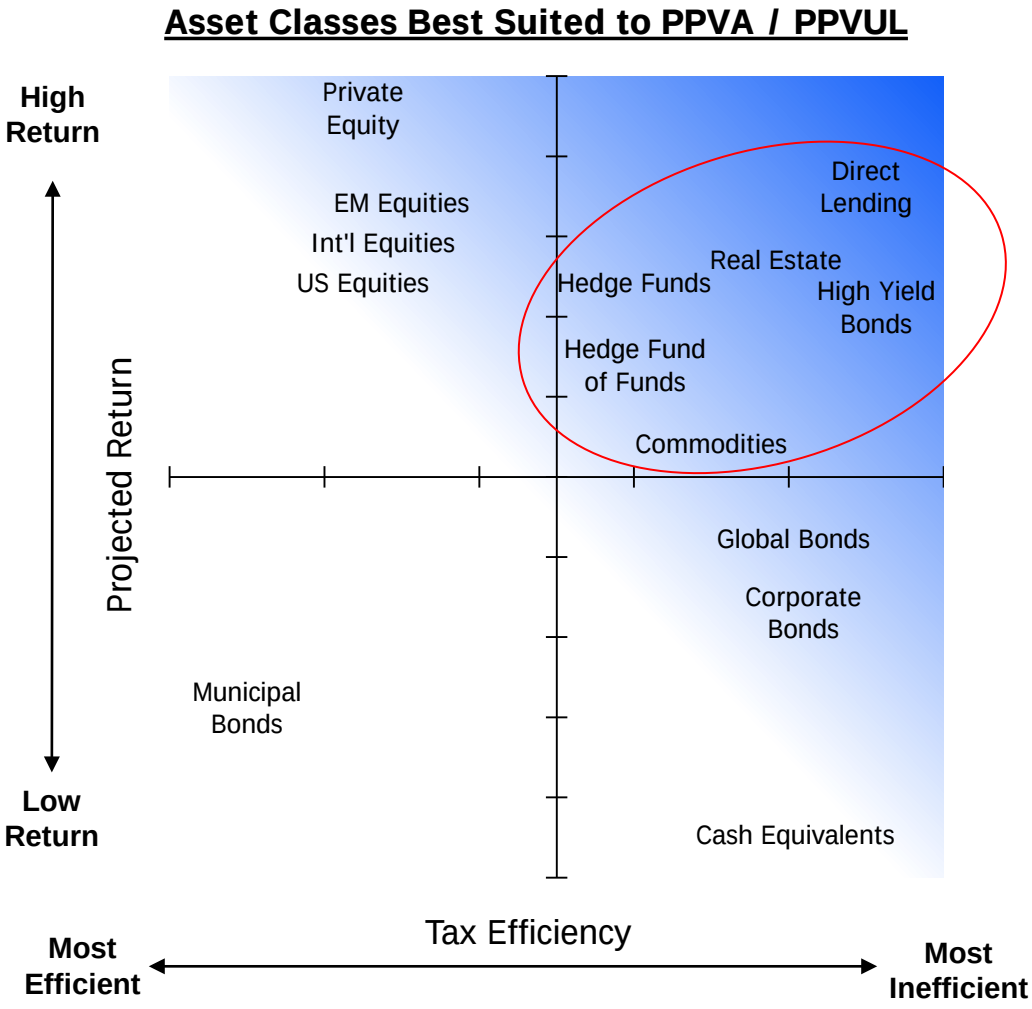
*Projected pretax 30-year compound annual growth rate. Stocks (or "global equities") are modeled as 21% US diversified, 21% US value, 21% US growth, 7% US small-/mid-cap,22.5% developed international, and 7.5% emerging-market stocks, and bonds are modeled as intermediate-term diversified municipal bonds. Reflects Bernstein's estimates and the capital-market conditions as of December 31, 2015.

**Estimated annual income tax cost, expressed as a fraction of portfolio value.

†Historical compound return calculated from January 1, 1986, through December 31, 2015 with equities represented as follows: 70% S&P 500 and 30% MSCI EAFE from 1986 through 1987, and 70% S&P 500, 25% MSCI EAFE, and 5% MSCI EM thereafter; bonds represented by the Lipper Short/Intermediate Municipal Bond Fund Average.

Sources: Lipper, MSCI, Standard & Poor's, and AB

What Types of Investments Are Best Suited to PPVUL?



+ **High-returning investments**
  - Returns must be sufficient to offset contract / policy costs

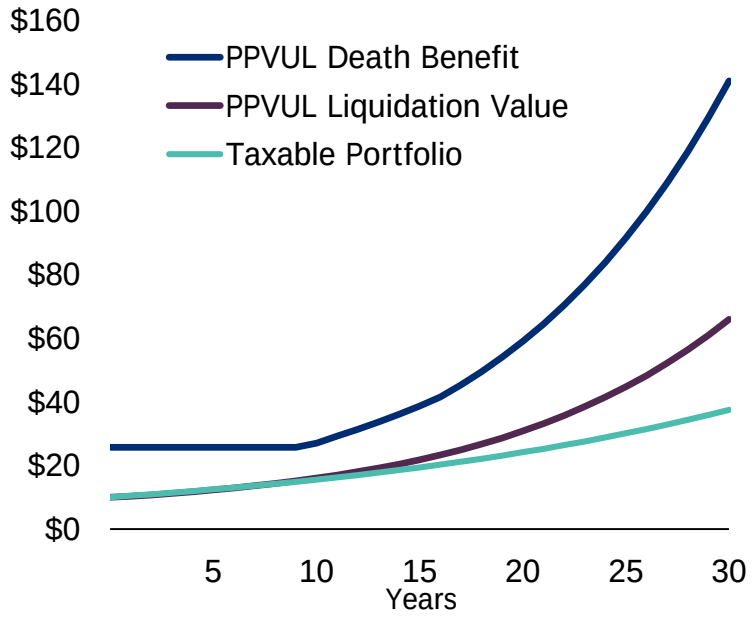
+ **Tax-inefficient investments**
  - Examples of such income include taxable interest, rental income, and short-term capital gains

+ **Illiquid investments**
  - Often tax-inefficient in nature
  - Matches long time horizon of PPVUL

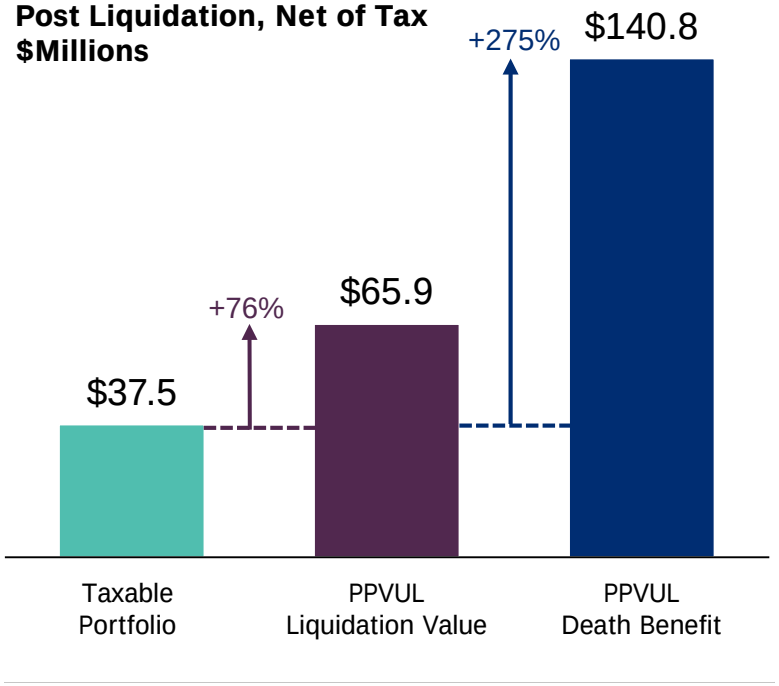
For illustrative purposes only. Data do not represent past performance and are not a promise of actual future results or a range of future results. AB is not a legal, tax, estate, or insurance advisor. Investors should consult these professionals as appropriate before making any decisions.
Source: AB

Single High-Returning, Tax-Inefficient Strategy*: Impressive . . . But Is It Prudent?

Growth of $10 Million
Post Liquidation, Net of Tax
$Millions



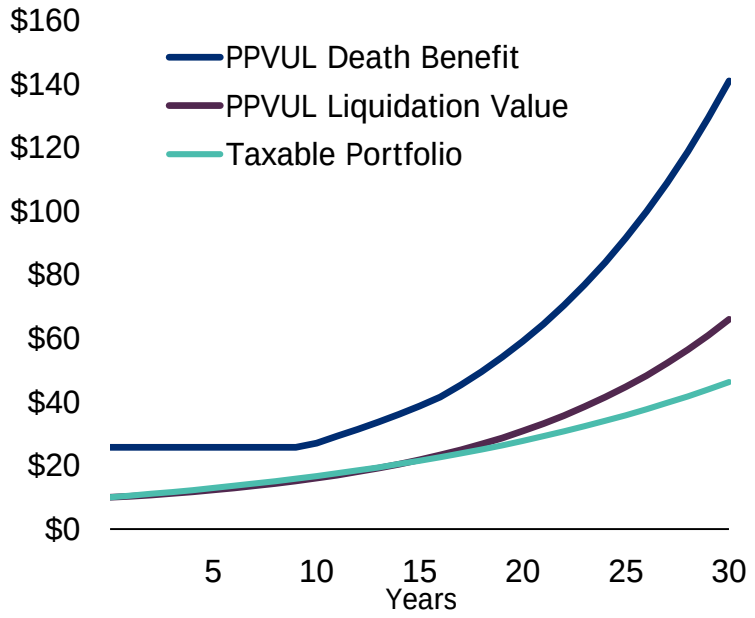
Portfolio Values at Year 30
Post Liquidation, Net of Tax
$Millions



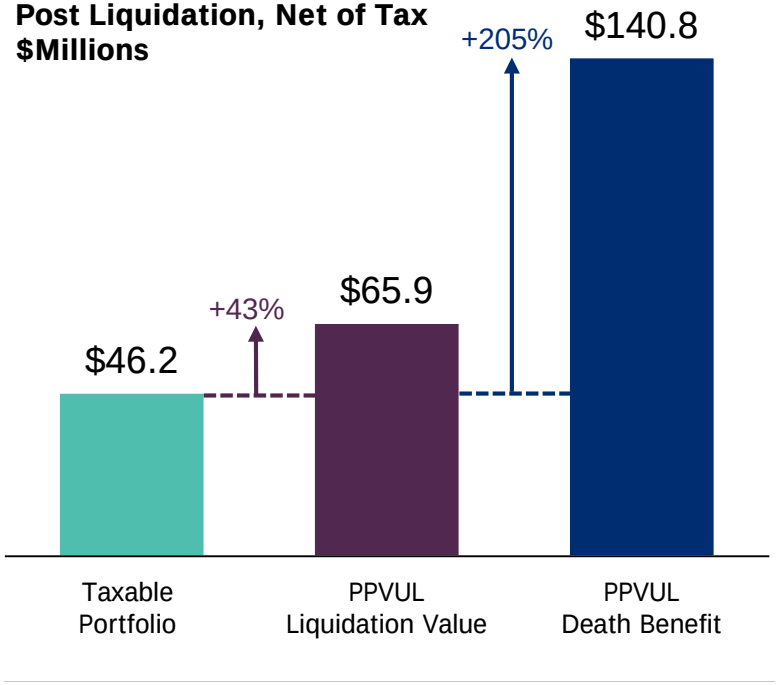
*Assumes 10.0% return each year, consisting 100% of ordinary income / short-term capital gain. Income taxes computed at an effective ordinary income / short-term capital gain tax rate of 55% and an effective long-term capital gain / qualified dividend tax rate of 35%. For each year depicted, "Taxable Portfolio" is the value of the portfolio net of taxes due for income, realized capital gains and unrealized capital gains. For each year depicted, "PPVUL Liquidation Value" is net of ordinary income tax for embedded growth of PPVUL policy (cash value). "PPVUL Death Benefit" represents the death benefit (no tax). PPVUL Assumptions – Insured: Male, Age 60, Preferred; Situs: Delaware; Modified Endowment Contract (MEC); Face Amount: $25,680,000; Investment: $10,000,000; Policy Underwriting Charge: $2,000; Premium Load Components – Year 1: $227,000 Total (Federal DAC Tax: $100,000, State Premium Tax: $2,000, Distribution Charge: $125,000); Annual M&E (assessed on Total Account Value): $10,000,000 to $40,000,000 = 0.45%, $40,000,000 and above = 0.35%; Annual COI (Cost of Insurance): cost of providing death benefit. Data do not represent past performance and are not a promise of actual future results or a range of future results.
Based on AB analysis and illustration provided by insurance provider. AB is not a legal, tax, estate, or insurance advisor. Investors should consult these professionals as appropriate before making any decisions.

Diversified Approach: Compelling . . . But a Bit Inefficient at "Normal" Product Pricing*

Growth of $10 Million
Post Liquidation, Net of Tax
$Millions



Portfolio Values at Year 30
Post Liquidation, Net of Tax
$Millions



*Assumes 10.0% return each year, consisting 2/3 of ordinary income / short-term capital gain and 1/3 of long-term capital gain / qualified dividends (2/3 long-term capital gain with 3-year holding period and 1/3 qualified dividends). Income taxes computed at an effective ordinary income / short-term capital gain tax rate of 55% and an effective long-term capital gain / qualified dividend tax rate of 35%. For each year depicted, "Taxable Portfolio" is the value of the portfolio net of taxes due for income, realized capital gains and unrealized capital gains. For each year depicted, "PPVUL Liquidation Value" is net of ordinary income tax for embedded growth of PPVUL policy (cash value). "PPVUL Death Benefit" represents the death benefit (no tax). PPVUL Assumptions – Insured: Male, Age 60, Preferred; Situs: Delaware; Modified Endowment Contract (MEC); Face Amount: $25,680,000; Investment: $10,000,000; Policy Underwriting Charge: $2,000; Premium Load Components – Year 1: $227,000 Total (Federal DAC Tax: $100,000, State Premium Tax: $2,000, Distribution Charge: $125,000); Annual M&E (assessed on Total Account Value): $10,000,000 to $40,000,000 = 0.45%, $40,000,000 and above = 0.35%; Annual COI (Cost of Insurance): cost of providing death benefit. Data do not represent past performance and are not a promise of actual future results or a range of future results.
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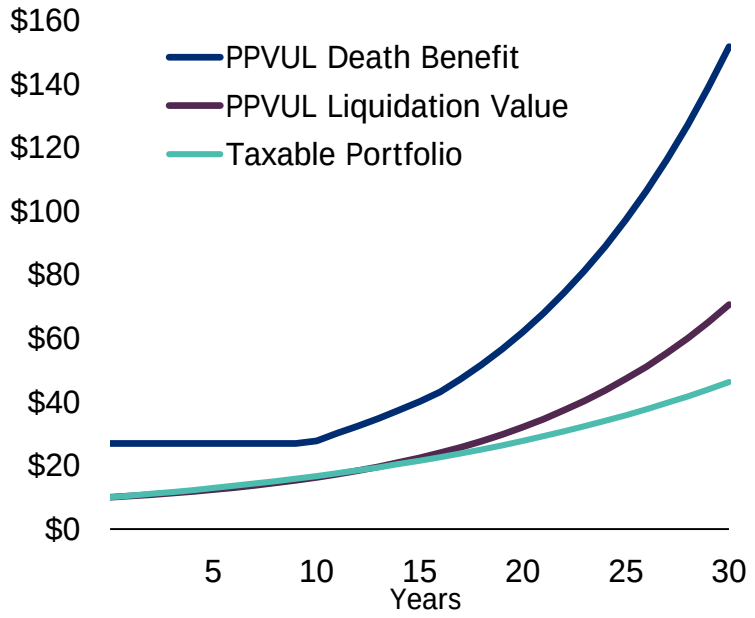
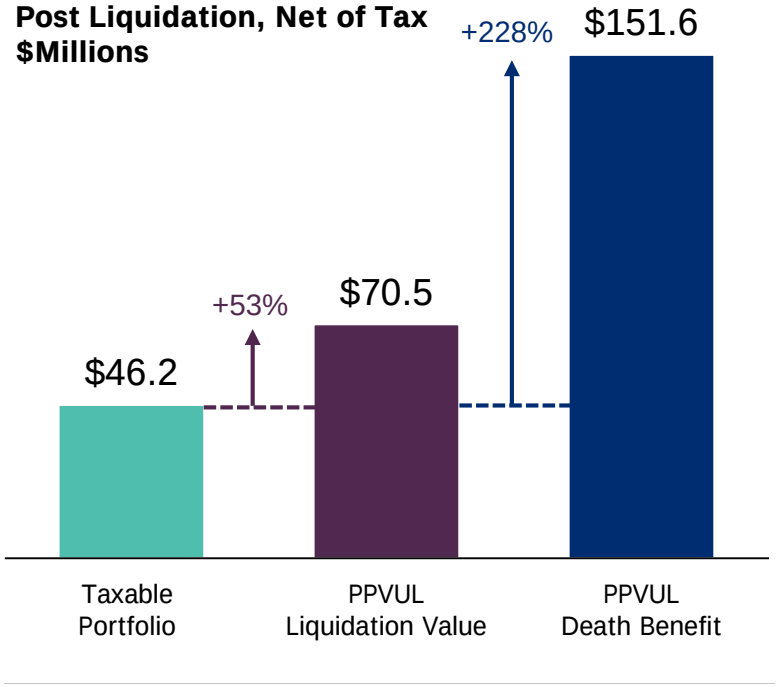
Diversified Approach with "Institutional" Pricing*: Best Absolute Outcome, Enhanced Efficiency

Growth of $10 Million
Post Liquidation, Net of Tax
$Millions



Portfolio Values at Year 30
Post Liquidation, Net of Tax
$Millions



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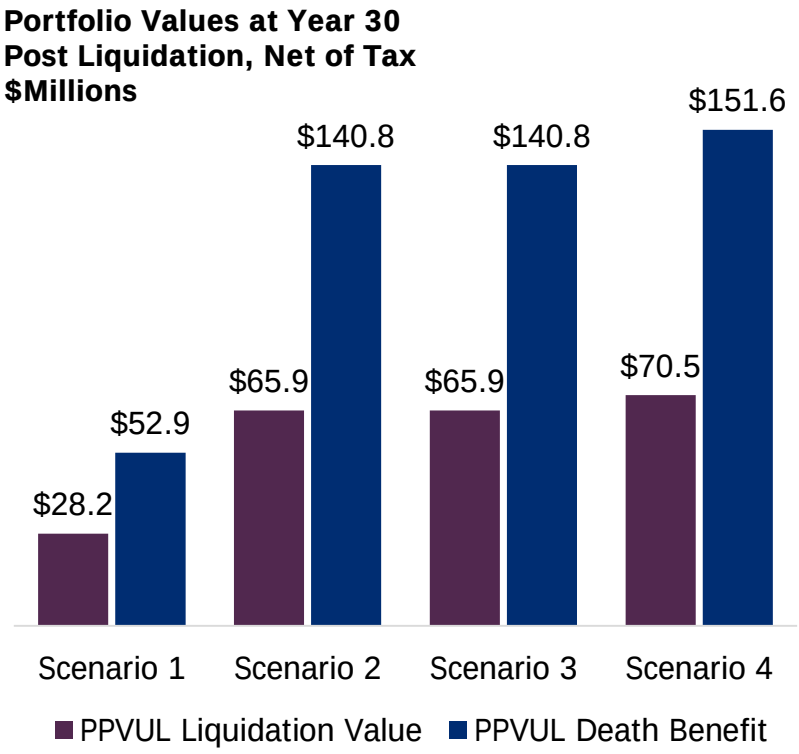
Diversified Approach Is More Tax-Efficient than Single-Strategy . . . So Product Pricing Becomes More Important

Investment Scenario	Crossover Point*
1. Traditional Portfolio, Normal Pricing	>30 Years
2. Single-Strategy, Normal Pricing	8 Years
3. Diversified Approach, Normal Pricing	15 Years
4. Diversified Approach, Institutional Pricing	13 Years



*"Crossover Point" means time when PPVUL liquidation value first exceeds after-tax liquidation value of taxable portfolio.
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Case Study: Real Estate Investor

Real Estate Investor Case Study Assumptions

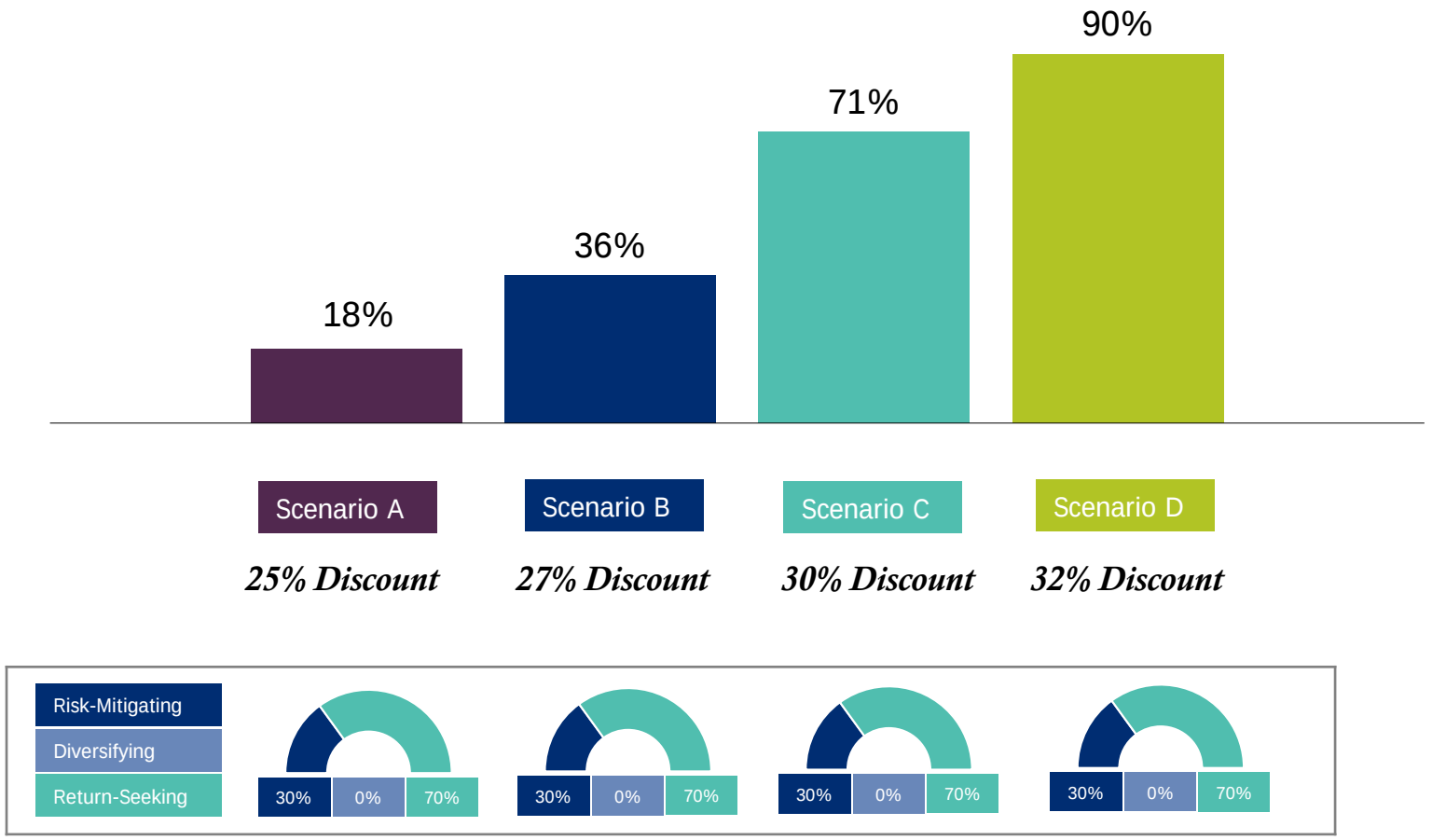
- Real estate entrepreneur, Lando, age 67, owns 45% interest in commercial property
  - Nondiscounted value of interest = $135 million
  - Reduced by 25% valuation discount (base case) = <$33.75 million>
  - Reduced by 45% share of $150 million debt = <$67.5 million>
  - **Net value (discounted) = $33.75 million**
- 45% of annual cash flow (net of debt service) = $3.15 million (9.3% of net value)
- Lando is considering selling his interest to an irrevocable grantor trust

How sensitive is the analysis to the level of valuation discount? Would a long-term sale be preferable?

*At time of this analysis (May 2017), Section 7520 rate was 2.4%; mid-term applicable federal rate (AFR) was 2.04%; long-term AFR was 2.75%. "Installment sale" means annual interest-only payments at mid- or long-term AFR, as appropriate, with "balloon" principal payment at maturity. We assume that guarantees, rather than seed capital, will be used to establish creditworthiness of purchasing trust. Excess cash is invested 70% in global stocks, 30% in intermediate-term bonds; specific portfolio allocation information is available upon request. Bernstein does not provide legal or tax advice, or opine as to the appropriateness or amount of any valuation discount. Consult with competent professionals in these areas before making any decisions.
Sources: www.irs.gov, AB

Debt on Property Enhances Sensitivity to Valuation Discount . . .

Probability of Success,* Nine-Year Installment Sale

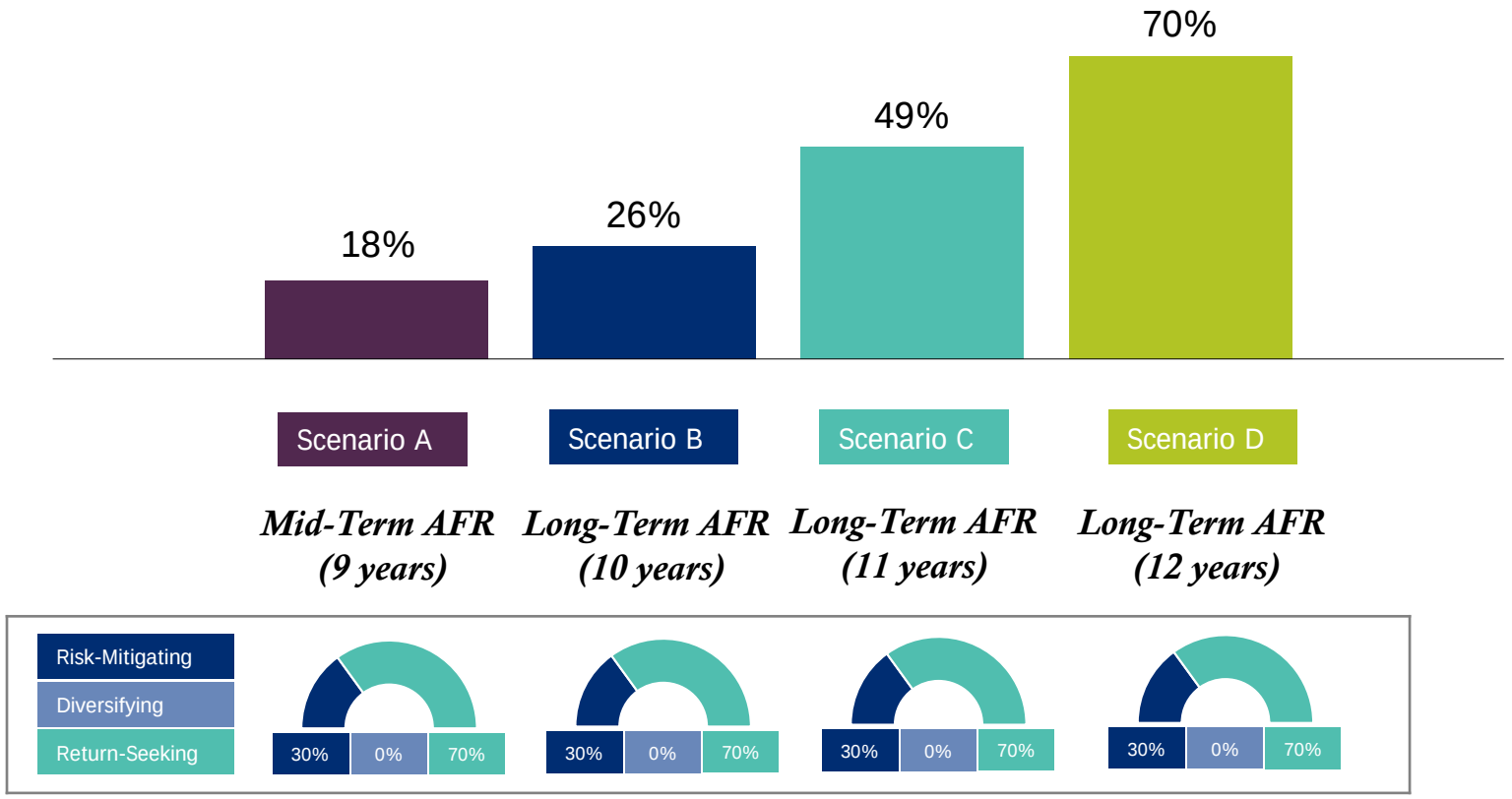


*"Success" means probability of trust remainder of at least $1.

Based on Bernstein's estimates of the range of returns for the applicable capital markets over the periods analyzed. Data do not represent past performance and are not a promise of actual future results or a range of future results. See Appendix, Notes on Wealth Forecasting, for details.

. . . And to Note Term

Probability of Success,* 25% Valuation Discount



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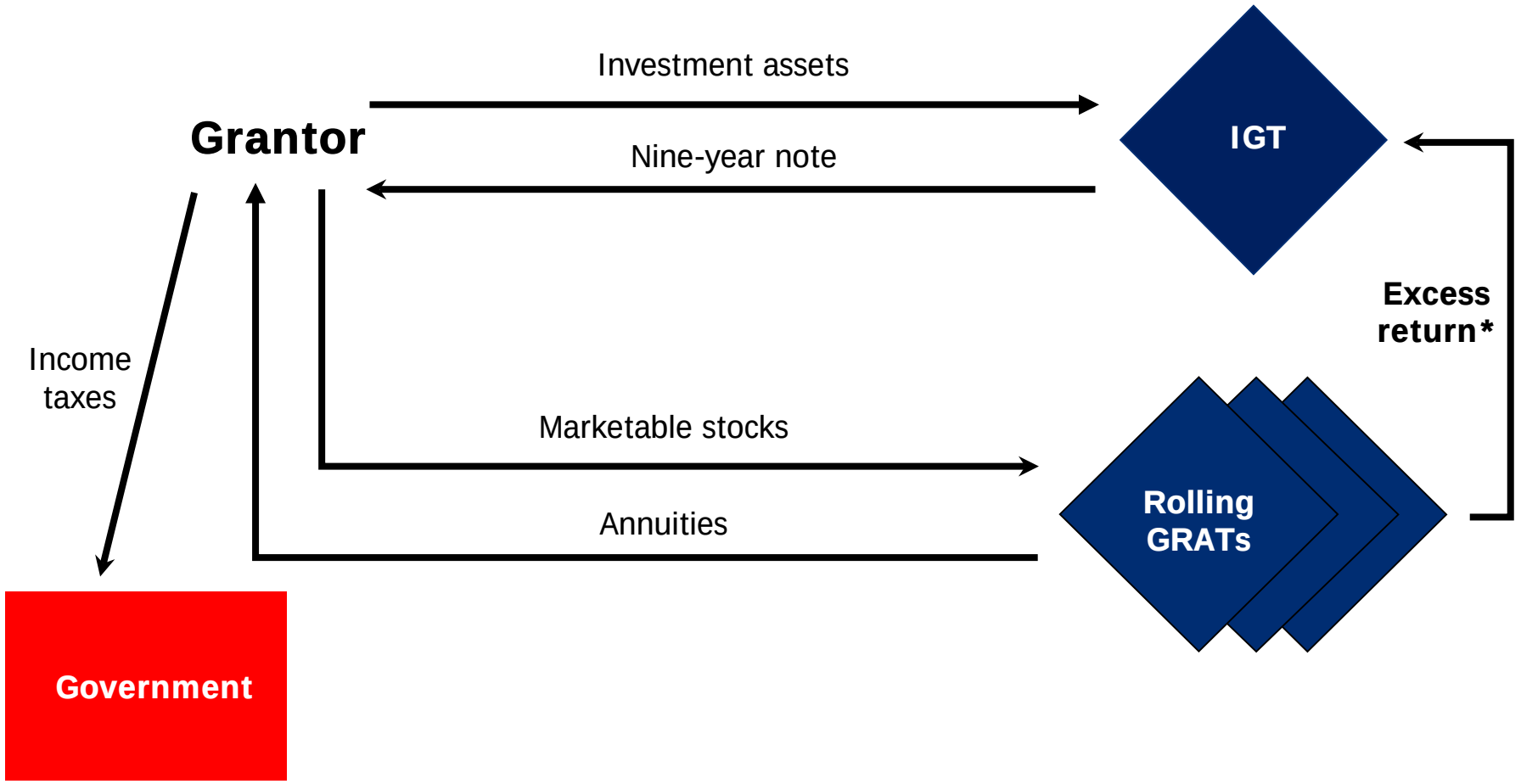
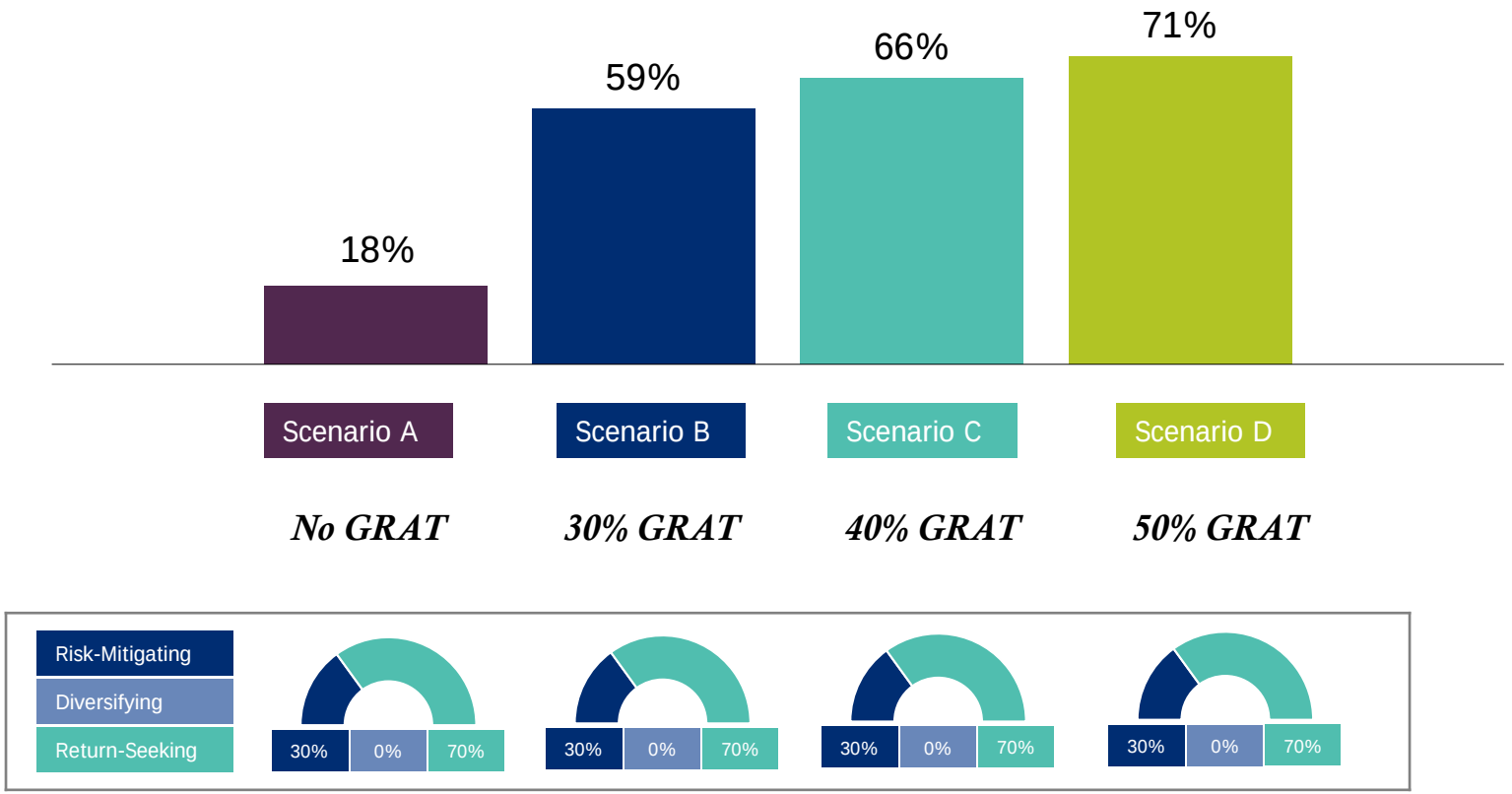
Paired Installment Sale-GRAT Strategy



*Alternatively, excess return from GRATs could be directly to individual beneficiaries, or to separate irrevocable grantor or nongrantor trust for their benefit.
For illustrative purposes only; not an advertisement and does not constitute an endorsement of any particular wealth transfer strategy. Bernstein does not provide legal or tax advice. Consult with competent professionals in these areas before making any decisions.
Source: AB

"Paired" Strategy Enhances Probability of Success . . . Without Extending Note Maturity or Increasing Discount Percentage

Probability of Success,* Nine-Year Installment Sale at 25% Valuation Discount, plus Nine-Year "Rolling" GRAT Strategy



*"Success" means probability of trust remainder of at least $1. "GRAT" means series of two-year, zeroed-out, "rolling" GRATs funded entirely with globally diversified stocks; specific portfolio allocation information is available upon request. Percentage allocation to GRAT strategy is relative to discounted value of real estate interest sold. Strategy is initiated in May 2017, when Section 7520 rate is 2.4%; rate for subsequent GRATs is determined by Bernstein's wealth forecasting model.
Based on Bernstein's estimates of the range of returns for the applicable capital markets over the periods analyzed. Data do not represent past performance and are not a promise of actual future results or a range of future results. See Appendix, Notes on Wealth Forecasting, for details.

Appendix

Case Study: Should I Dump My Life Insurance Policy?

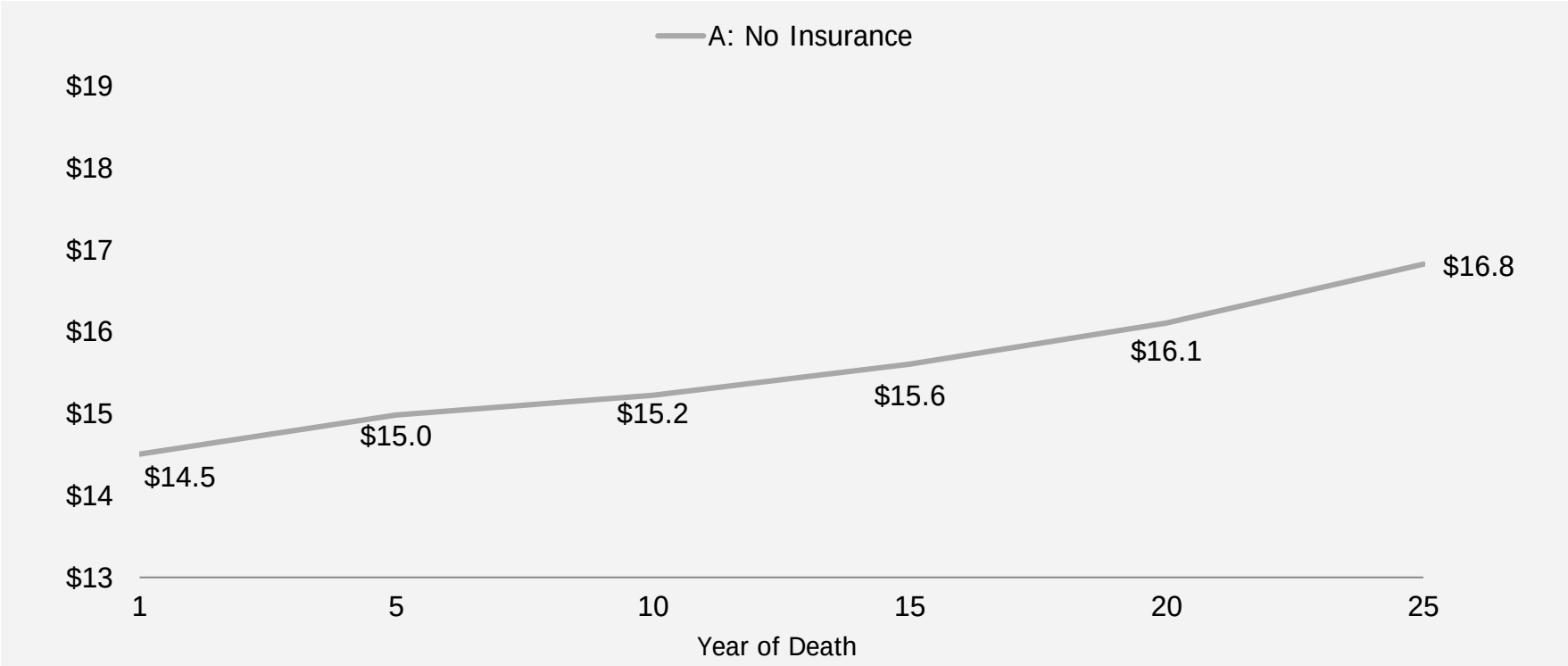
Integrated Solution Case-Study Assumptions

- Adam and Eve, each aged 71, with two adult children and two young grandchildren
  - Portfolio value = $15 million; one-half taxable, other half divided between an IRA and a Roth IRA
  - Invested 50% in stocks, 50% in bonds*
  - Annual spending = $300,000, adjusted for inflation**
- Traditional ILIT established years ago to help pay estate taxes owns two second-to-die policies
  - Total death benefit = $5 million
  - Aggregate cash value = $1 million
  - Aggregate annual premiums = $30,000

Key research questions:
Surrender both policies?
Or retain one or both?

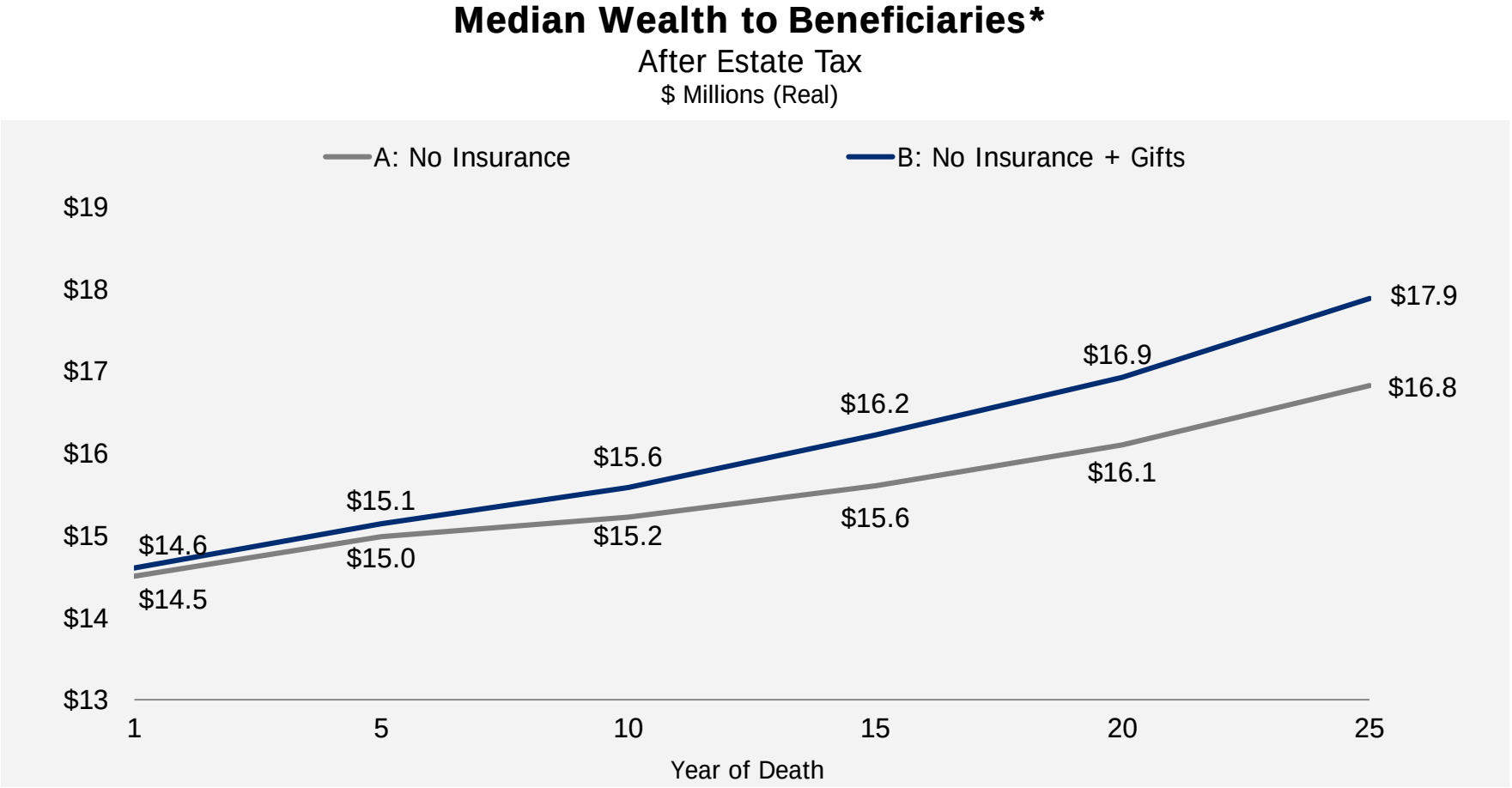
*"Stocks" are modeled as 21% US value, 21% US growth, 21% US diversified, 7% US small- and mid-cap, 22.5% developed international, and 7.5% emerging market; "bonds" are modeled as intermediate-term municipal bonds.
**Except for $300,000 of deferred compensation to be realized over three years, virtually all taxable income consists of (1) minimum required distributions from traditional IRA and (2) portfolio income. State income tax rate is 6.5%.
Source: AB

An Unhedged Plan Should Enhance Beneficiary Wealth over Time . . .



*"Median Wealth to Beneficiaries" means 50th percentile outcome of Bernstein's wealth forecasting model, plus aggregate insurance death benefit, if any, reduced by federal estate tax for any wealth held on personal balance sheet. "Year of Death" means the year of death of the last of the insureds to die. We computed estate tax assuming remaining exclusion of $10.9 million indexed for inflation in accordance with applicable law, assuming annual inflation of 2.7%. Based on Bernstein's estimates of the range of returns for the applicable capital markets over the applicable period. **Data do not represent past performance and are not a promise of actual future results or a range of future results.**
Bernstein does not provide legal, tax, or insurance advice; investors should consult experts in those areas before implementing any insurance strategy.
Source: AB

Lifetime Wealth Transfer Strategies Help, but Generally Not in a Way That Addresses Beneficiaries' Needs



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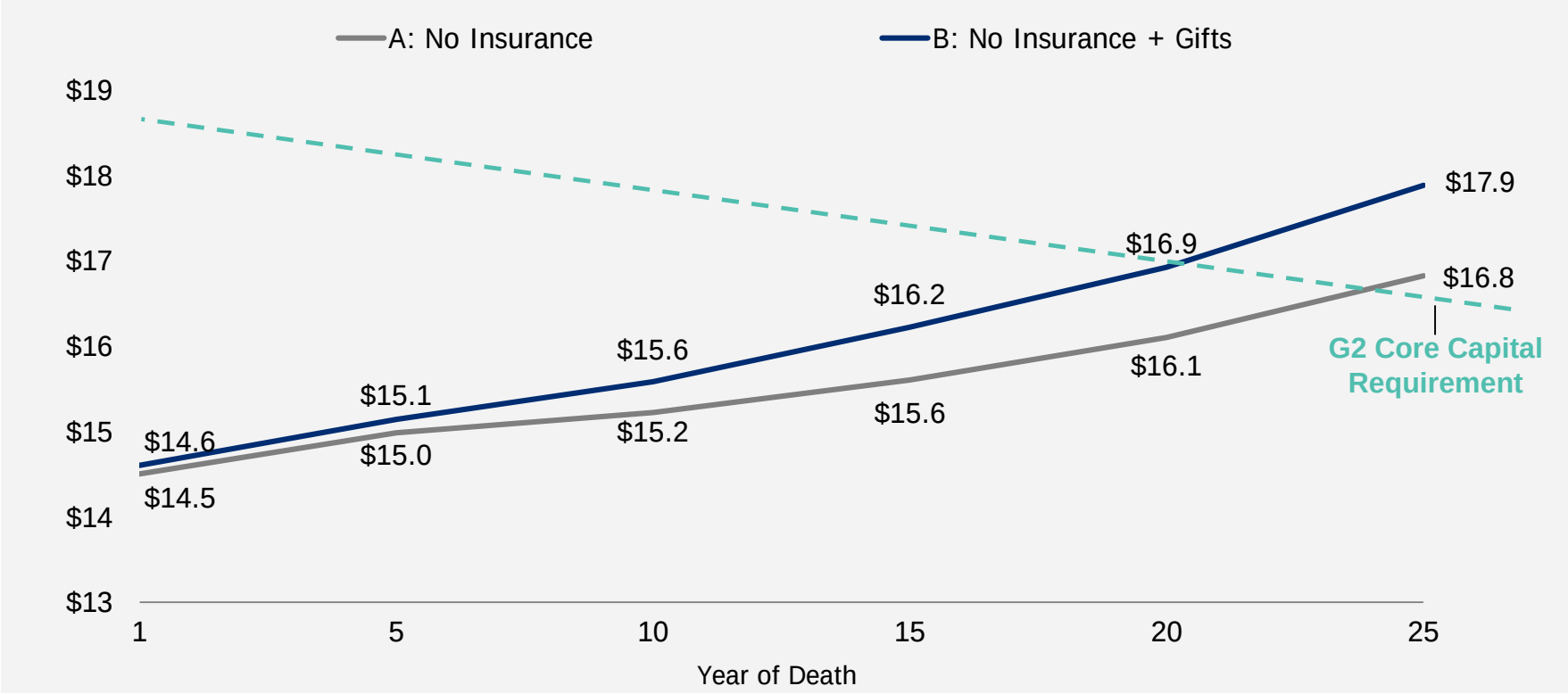
Lifetime Wealth Transfer Strategies Help, but Generally Not in a Way That Addresses Beneficiaries' Needs

Median Wealth to Beneficiaries*

After Estate Tax

$ Millions (Real)



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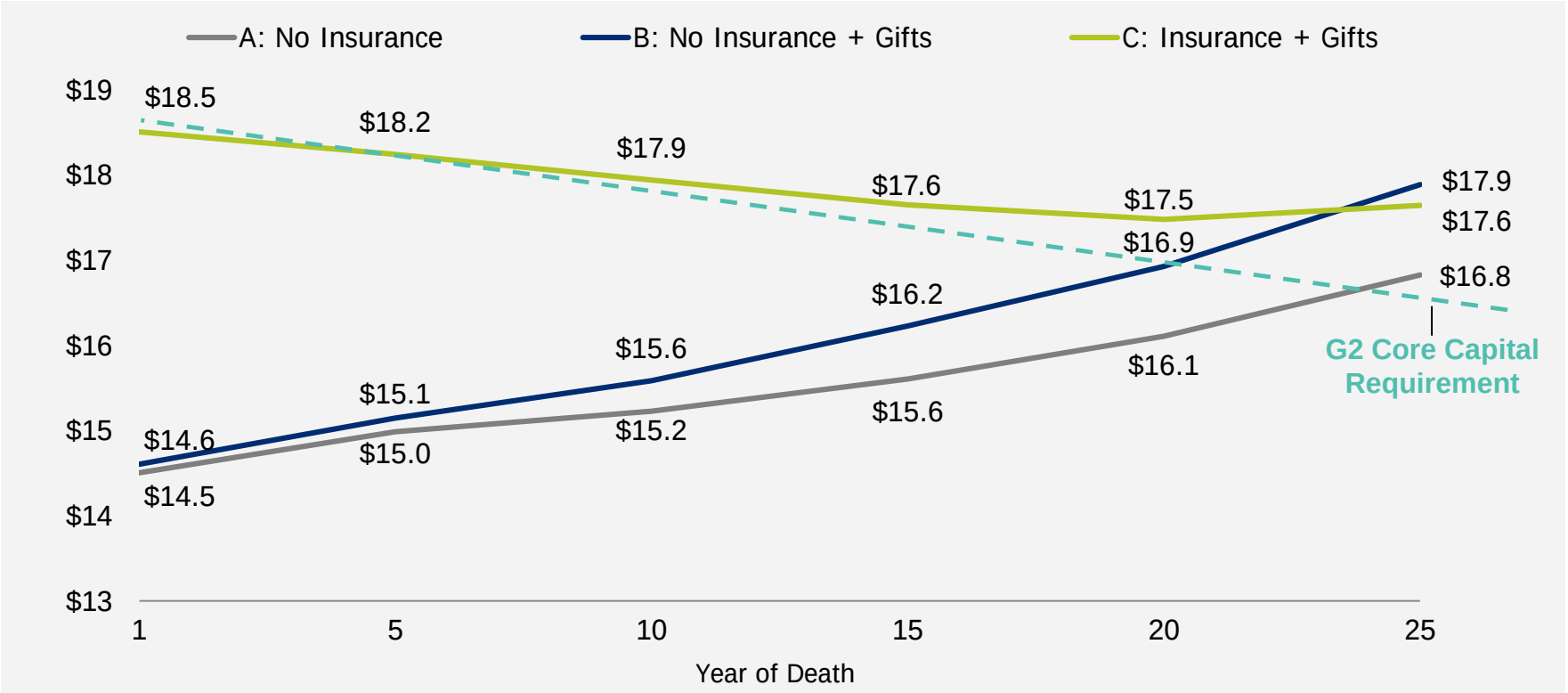
Source: AB

A Plan That Truly Integrates Life Insurance Tends to Match Beneficiaries' Needs Better than an Unhedged Plan

Median Wealth to Beneficiaries*

After Estate Tax

$ Millions (Real)



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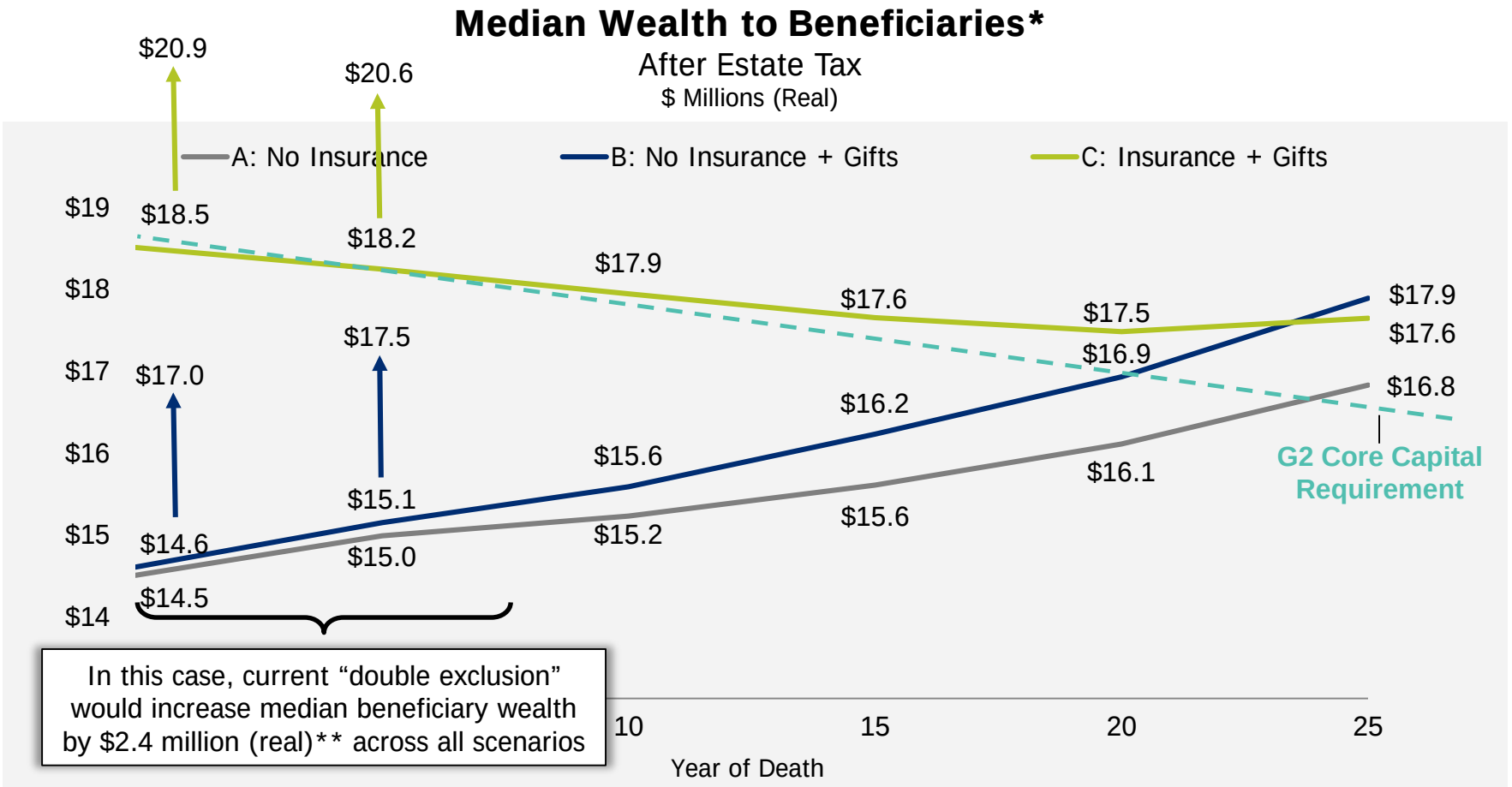
Source: AB

Even With (Temporarily?) Higher Exclusion, Plan Falls Short Without Insurance . . .



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**The family does not have enough wealth to take full advantage of the $11.2 million (real) per spouse applicable exclusion amount.

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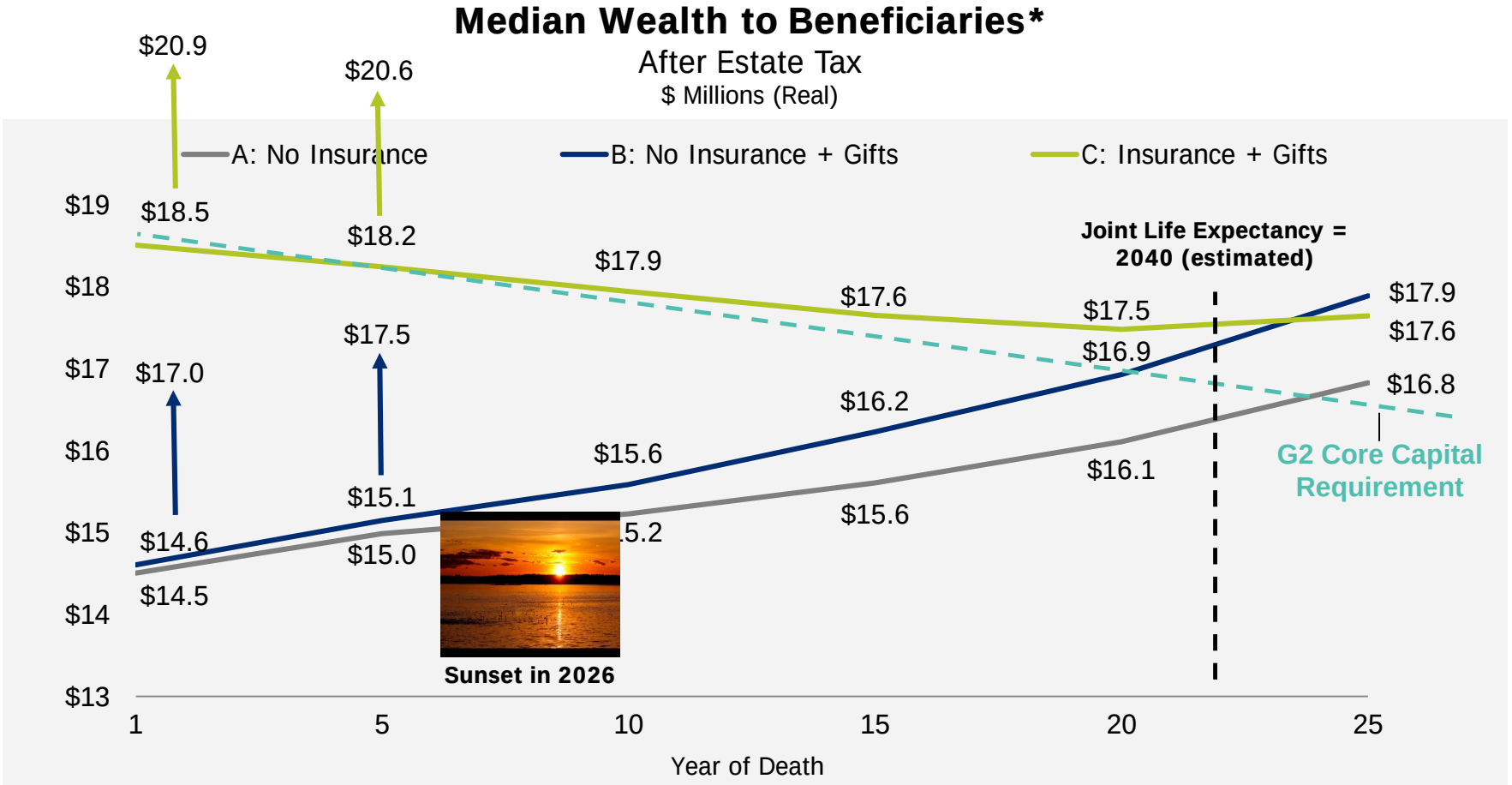
Source: AB

. . . And that Increased Exclusion Is Scheduled to Sunset Well Before Actuarially Expected Second Death



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**The family does not have enough wealth to take full advantage of the current $11.2 million (real) per spouse applicable exclusion amount.

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Source: AB

Some Assets Will Benefit from Step-Up; Others May Not

Asset Type	Comments
Creator-Owned Copyrights, Trademarks, Patents, and Artwork	During the life of the creator of intellectual property and artwork, the creator has a zero basis in the asset, and all payments, whether from a sale of the asset or from the licensing of the property, are considered ordinary income. On the death of the creator, the property is included in the estate and receives a step-up in basis to fair market value. The beneficiaries receive the asset immediately as a long-term capital-gains asset. The foregoing does not apply to patents that qualify for and are sold under Section 1235 of the Internal Revenue Code of 1986, as amended, which qualify for long-term capital-gains tax treatment.
Negative-Basis Commercial Real Property LP or LLC Interests	Owners of partnership interests with a negative basis would recognize long-term capital-gains and ordinary income upon a taxable transaction due to accelerated depreciation and a reduction of the partner's share of debt. Upon death, the negative basis is eliminated because the partnership interests and the underlying property receive a step-up in basis (with a partnership election). For this purpose, "negative basis" means debt in excess of tax basis; as a technical matter, one's adjusted basis cannot be less than zero.
Artwork, Gold, and Other Collectibles	Artwork and gold (including gold ETF investments) are considered "collectibles" under the Code, and they are subject to a 28% long-term capital-gains tax rate. Gains are also subject to the Medicare surcharge.
Low-Basis Stock	Capital asset subject to a 20% long-term capital-gains tax rate and the Medicare surcharge. The step-up in basis eliminates the gain.
Roth IRA Assets	With a Roth IRA, the ordinary income tax of a traditional IRA has essentially been prepaid. Because the assets in a Roth IRA will grow income tax–free, will be distributed tax-free to the beneficiaries, and will not be subject to the Medicare surcharge, this is one of the better things to pass through the estate. As with other IRA and qualified plan assets, during life the owner is unable to give Roth IRA assets to noncharitable beneficiaries. As such, these assets are often includable in the estate of the decedent owner.
High-Basis Stock	Capital asset subject to a 20% long-term capital-gains tax rate and the Medicare surcharge. Because the tax basis is high, very little gain is eliminated by the step-up in basis.
Bonds	Most fixed-income investments are purchased at or near par and have very little appreciation potential above their basis. As such, very little gain is eliminated by the step-up in basis. A couple of exceptions to this rule include bonds purchased at a deep discount and long-duration bonds in a falling interest-rate environment.
Cash	Basis of cash is always equal to its fair market value (face value).
Depreciated Stocks	Death results in a step-down in basis. The capital loss that the decedent could have recognized prior to death is eliminated and does not pass to the beneficiaries.
Variable Annuities	Payments are taxable as ordinary income and return of basis. The ordinary income portion is considered income In Respect of a Decedent (IRD). As such, on death, the beneficiaries continue to recognize the ordinary income portion of the payments, and there is no benefit to the step-up in basis.
Traditional IRA and Qualified Plan Assets	All assets in traditional IRAs and in qualified plans are considered 100% IRD (other than nondeductible contributions to IRAs). As such, there is no benefit to the step-up in basis at the death of the owner, and the beneficiaries continue to be subject to ordinary income (but not the Medicare surcharge) on any distributions. Because these assets cannot be given during life to noncharitable beneficiaries, these assets are problematic in that they often use up the decedent's applicable exclusion amount for estate tax purposes (unless passed to a spouse or charity). The benefit from the IRD income tax deduction applies only to federal (not state) estate tax paid. Under ATRA, the federal rate is only 40%; for some, that rate would have been 55% had the sunset provisions of EGTRRA 2001 come into effect as scheduled on 1/1/2013.

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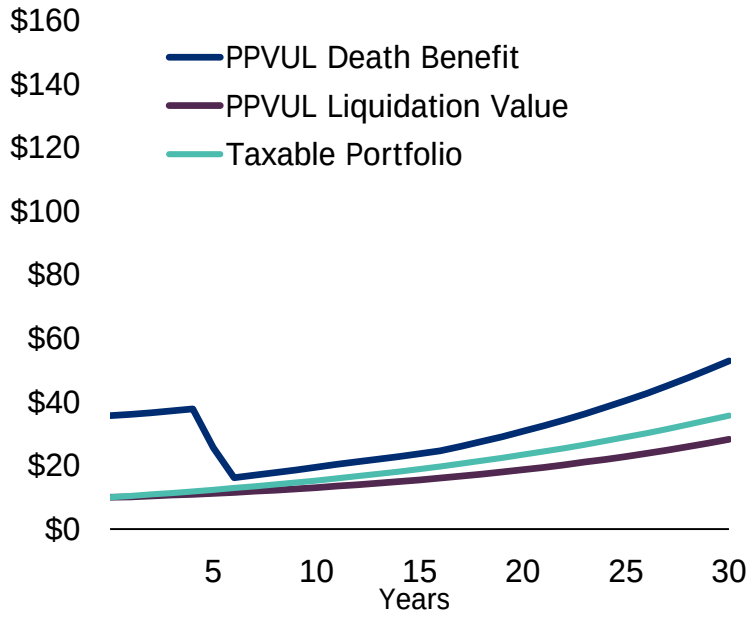
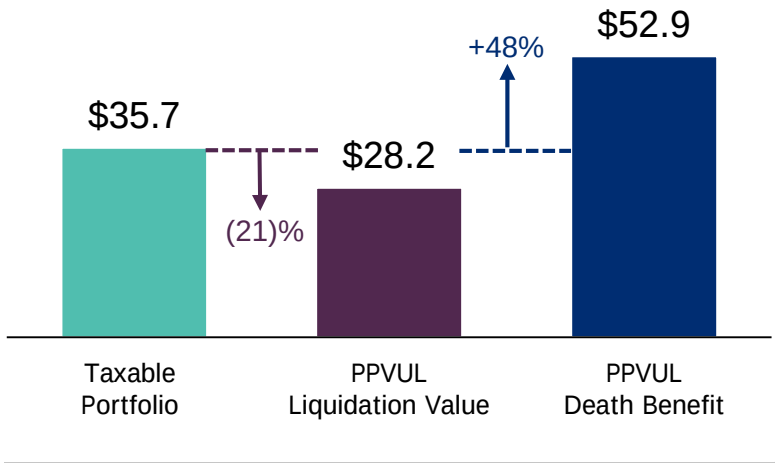
Source: AB

Traditional Stock and Bond Portfolio*: Either Structure as a Non-MEC . . . or Wait For the Death Benefit

Growth of $10 Million
Post Liquidation, Net of Tax
$Millions



Portfolio Values at Year 30
Post Liquidation, Net of Tax
$Millions



*Assumes 6.5% return each year, consisting 2/3 of long-term capital gains with a 3-year holding period and 1/3 qualified dividends. Income taxes computed at an effective ordinary income / short-term capital gain tax rate of 55% and an effective long-term capital gain / qualified dividend tax rate of 35%. For each year depicted, "Taxable Portfolio" is the value of the portfolio net of taxes due for income, realized capital gains and unrealized capital gains. For each year depicted, "PPVUL Liquidation Value" is net of ordinary income tax for embedded growth of PPVUL policy (cash value). "PPVUL Death Benefit" represents the death benefit (no tax). PPVUL Assumptions – Insured: Male, Age 60, Preferred; Situs: Delaware; Modified Endowment Contract (MEC); Face Amount: $25,680,000; Investment: $10,000,000; Policy Underwriting Charge: $2,000; Premium Load Components – Year 1: $227,000 Total (Federal DAC Tax: $100,000, State Premium Tax: $2,000, Distribution Charge: $125,000); Annual M&E (assessed on Total Account Value): $10,000,000 to $40,000,000 = 0.45%, $40,000,000 and above = 0.35%; Annual COI (Cost of Insurance): cost of providing death benefit. Data do not represent past performance and are not a promise of actual future results or a range of future results.
Based on AB analysis and illustration provided by insurance provider. AB is not a legal, tax, estate, or insurance advisor. Investors should consult these professionals as appropriate before making any decisions.

Notes on Wealth Forecasting System

1. Purpose and Description of Wealth Forecasting System

Bernstein's Wealth Forecasting System℠ is designed to assist investors in making long-term investment decisions regarding their allocation of investments among categories of financial assets. Our new planning tool consists of a four-step process: (1) Client Profile Input: the client's asset allocation, income, expenses, cash withdrawals, tax rate, risk-tolerance level, goals and other factors; (2) Client Scenarios: in effect, questions the client would like our guidance on, which may touch on issues such as when to retire, what his/her cash-flow stream is likely to be, whether his/her portfolio can beat inflation long term and how different asset allocations might impact his/her long-term security; (3) The Capital Markets Engine: Our proprietary model, which uses our research and historical data to create a vast range of market returns, takes into account the linkages within and among the capital markets, as well as their unpredictability; and finally (4) A Probability Distribution of Outcomes: Based on the assets invested pursuant to the stated asset allocation, 90% of the estimated ranges of returns and asset values the client could expect to experience are represented within the range established by the 5th and 95th percentiles on "box and whiskers" graphs. However, outcomes outside this range are expected to occur 10% of the time; thus, the range does not establish the boundaries for all outcomes. Expected market returns on bonds are derived by taking into account yield and other criteria. An important assumption is that stocks will, over time, outperform long bonds by a reasonable amount, although this is in no way a certainty. Moreover, actual future results may not meet Bernstein's estimates of the range of market returns, as these results are subject to a variety of economic, market and other variables. Accordingly, the analysis should not be construed as a promise of actual future results, the actual range of future results or the actual probability that these results will be realized.

2. Rebalancing

Another important planning assumption is how the asset allocation varies over time. We attempt to model how the portfolio would actually be managed. Cash flows and cash generated from portfolio turnover are used to maintain the selected asset allocation between cash, bonds, stocks, REITs and hedge funds over the period of the analysis. Where this is not sufficient, an optimization program is run to trade off the mismatch between the actual allocation and targets against the cost of trading to rebalance. In general, the portfolio allocation will be maintained reasonably close to its target. In addition, in later years, there may be contention between the total relationship's allocation and those of the separate portfolios. For example, suppose an investor (in the top marginal federal tax bracket) begins with an asset mix consisting entirely of municipal bonds in his/her personal portfolio and entirely of stocks in his/her retirement portfolio. If personal assets are spent, the mix between stocks and bonds will be pulled away from targets. We put primary weight on maintaining the overall allocation near target, which may result in an allocation to taxable bonds in the retirement portfolio as the personal assets decrease in value relative to the retirement portfolio's value.

3. Expenses and Spending Plans (Withdrawals)

All results are generally shown after applicable taxes and after anticipated withdrawals and/or additions, unless otherwise noted. Liquidations may result in realized gains or losses that will have capital gains tax implications.

Notes on Wealth Forecasting System

4. Modeled Asset Classes

The following assets or indexes were used in this analysis to represent the various model classes

Asset Class	Modeled As…	Annual Turnover Rate
Intermediate-Term Diversified Municipal Bonds	AA-rated diversified municipal bonds with seven-year maturity	30%
US Diversified	S&P 500 Index	15
US Value Stocks	S&P/Barra Value Index	15
US Growth Stocks	S&P/Barra Growth Index	15
US Low Vol Equity	MSCI US Minimum Volatility Index	15
Developed International Stocks	MSCI EAFE Unhedged	15
Emerging Markets Stocks	MSCI Emerging Markets Index	20
High-Risk International Stocks	Country Fund	15
US SMID	Russell 2000	15

5. Volatility

Volatility is a measure of dispersion of expected returns around the average. The greater the volatility, the more likely it is that returns in any one period will be substantially above or below the expected result. The volatility for each asset class used in this analysis is listed on the Capital Markets Projections page at the end of these Notes.
In general, two-thirds of the returns will be within one standard deviation. For example, assuming that stocks are expected to return 8.0% on a compounded basis and the volatility of returns on stocks is 17.0%, in any one year it is likely that two-thirds of the projected returns will be between (8.9)% and 28.0%. With intermediate government bonds, if the expected compound return is assumed to be 5.0% and the volatility is assumed to be 6.0%, two-thirds of the outcomes will typically be between (1.1)% and 11.5%. Bernstein's forecast of volatility is based on historical data and incorporates Bernstein's judgment that the volatility of fixed income assets is different for different time periods.

6. Technical Assumptions

Bernstein's Wealth Forecasting System is based on a number of technical assumptions regarding the future behavior of financial markets. Bernstein's Capital Markets Engine is the module responsible for creating simulations of returns in the capital markets. Except as otherwise noted, these simulations are based on inputs that summarize the current condition of the capital markets as of September 30, 2016. Therefore, the first 12-month period of simulated returns represents the period from September 30, 2016, through September 30, 2017, and not necessarily the calendar year of 2016. A description of these technical assumptions is available upon request.

Notes on Wealth Forecasting System

7. Tax Implications

Before making any asset allocation decisions, an investor should review with his/her tax advisor the tax liabilities incurred by the different investment alternatives presented herein, including any capital gains that would be incurred as a result of liquidating all or part of his/her portfolio, retirement-plan distributions, investments in municipal or taxable bonds, etc. Bernstein does not provide tax, legal or accounting advice. In considering this material, you should discuss your individual circumstances with professionals in those areas before making any decisions.

8. Income Tax Rates

Bernstein's Wealth Forecasting System has used various assumptions for the income tax rates of investors in the case studies that constitute this analysis. See the assumptions in each case study (including footnotes) for details. Contact Bernstein for additional information.

The Federal Income Tax Rate is Bernstein's estimate of either the top marginal federal income tax rate or an "average" rate calculated based upon the marginal-rate schedule. The Federal Capital Gains Tax Rate is the lesser of the top marginal federal income tax rate or the current cap on capital gains for an individual or corporation, as applicable. Federal tax rates are blended with applicable state tax rates by including, among other things, federal deductions for state income and capital gains taxes. The State Tax Rate generally is Bernstein's estimate of the top marginal state income tax rate, if applicable.

The Wealth Forecasting System uses the following top marginal federal tax rates unless otherwise stated: For 2016 and beyond, the maximum federal ordinary income tax rate is 43.4% and the maximum federal capital gain and qualified dividend tax rate is 23.8%.

9. Estate Transfer and Taxation

The Wealth Forecasting System models the transfer of assets to children, more remote descendants, and charities, taking into account applicable wealth transfer taxes. If the analysis concerns a grantor and his or her spouse, the System assumes that only the first to die owns assets in his or her individual name and that no assets are owned jointly. It is further assumed that the couple's estate plan provides that an amount equal to the largest amount that can pass free of Federal estate tax by reason of the federal unified credit against estate taxes (or, if desired, the largest amount that can pass without state death tax, if less) passes to a trust for the benefit of the surviving spouse and/or descendants of the first-to-die, or directly to one or more of those descendants. It is further assumed that the balance of the first-to-die's individually owned assets passes outright to the surviving spouse and that such transfer qualifies for the federal estate tax marital deduction. Any state death taxes payable at the death of the first-to-die after 2010 are assumed to be paid from the assets otherwise passing to the surviving spouse. To the extent that this assumption results in an increase in state death taxes under any state's law, this increase is ignored. In addition, it is assumed that the surviving spouse "rolls over" into an IRA in his or her own name any assets in any retirement accounts (e.g., an IRA) owned by the first to die, and that the surviving spouse withdraws each year at least the minimum required distribution ("MRD"), if any, from that IRA.
At the survivor's death, all applicable wealth transfer taxes are paid, taking into account any deductions to which the survivor's estate may be entitled for gifts to charity and/or (after 2010) the payment of state death taxes. The balance of the survivor's individually-owned assets passes to descendants and/or charities and/or trusts for their benefit. The survivor's retirement accounts (if any) pass to descendants and/or charities. To the extent that a retirement account passes to more than one individual beneficiary, it is assumed that separate accounts are established for each beneficiary and that each takes at least the MRD each year from the account. In all cases, it is assumed that all expenses are paid from an individual's taxable accounts rather than his or her retirement accounts to the maximum extent possible.

Notes on Wealth Forecasting System (cont.)

10. Capital Markets Projections (Real Estate Investor Case)

	Median 10-Year Growth Rate	Mean Annual Return	Mean Annual Income	One-Year Volatility	10-Year Annual Equivalent Volatility
Municipal Cash	1.4%	1.6%	1.6%	0.3%	3.2%
Cash Equivalents	1.6	1.9	1.9	0.3	4.2
Intermediate-Term Municipals	2.6	2.7	2.8	3.9	3.0
Diversified Hedge Fund Portfolio	4.7	5.0	2.0	11.0	15.1
US Diversified	6.0	7.5	2.3	16.4	15.3
US Value	6.4	7.8	2.8	16.0	15.0
US Growth	5.7	7.6	1.9	18.2	16.7
US SMID	6.4	8.3	1.9	18.7	17.7
US Low Vol Equity	6.3	7.4	3.6	14.2	13.7
Developed International	7.7	9.6	3.1	18.1	16.9
Emerging Markets	5.8	9.6	3.1	26.1	25.6
High-Risk International	8.1	10.9	2.0	22.1	21.0
Inflation	2.3	2.6	—	1.2	5.7

Data do not represent any past performance and are not a guarantee of any future specific risk levels or returns, or any specific range of risk levels or returns.
Based on 10,000 simulated trials each consisting of 10-year periods; contact Bernstein for additional information.
Reflects Bernstein's estimates and the capital market conditions as of December 31, 2016.

Notes on Wealth Forecasting System (cont.)

11. Capital Markets Projections (Life Insurance Case)

	Median 25-Year Growth Rate	Mean Annual Return	Mean Annual Income	One-Year Volatility	25-Year Annual Equivalent Volatility
Intermediate-Term Municipals	3.1	3.3	3.3	4.2	6.7
Intermediate-Term Taxables	3.9	4.2	5.5	5.1	7.1
US Diversified	7.0	8.7	2.8	20.5	18.3
US Value	7.3	8.9	3.4	20.0	18.0
US Growth	6.7	8.7	2.3	22.8	19.8
US SMID	7.2	9.3	2.4	23.4	20.9
Developed International	7.9	10.1	3.4	22.7	19.6
Emerging Markets	6.0	10.0	3.8	32.8	27.9
Inflation	2.7	3.1	—	1.3	10.5

Data do not represent any past performance and are not a guarantee of any future specific risk levels or returns, or any specific range of risk levels or returns.
Based on 10,000 simulated trials each consisting of 25-year periods; contact Bernstein for additional information.
Reflects Bernstein's estimates and the capital market conditions as of September 30, 2015.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