BERNSTEIN

Managing Trusts in an Inflationary Environment

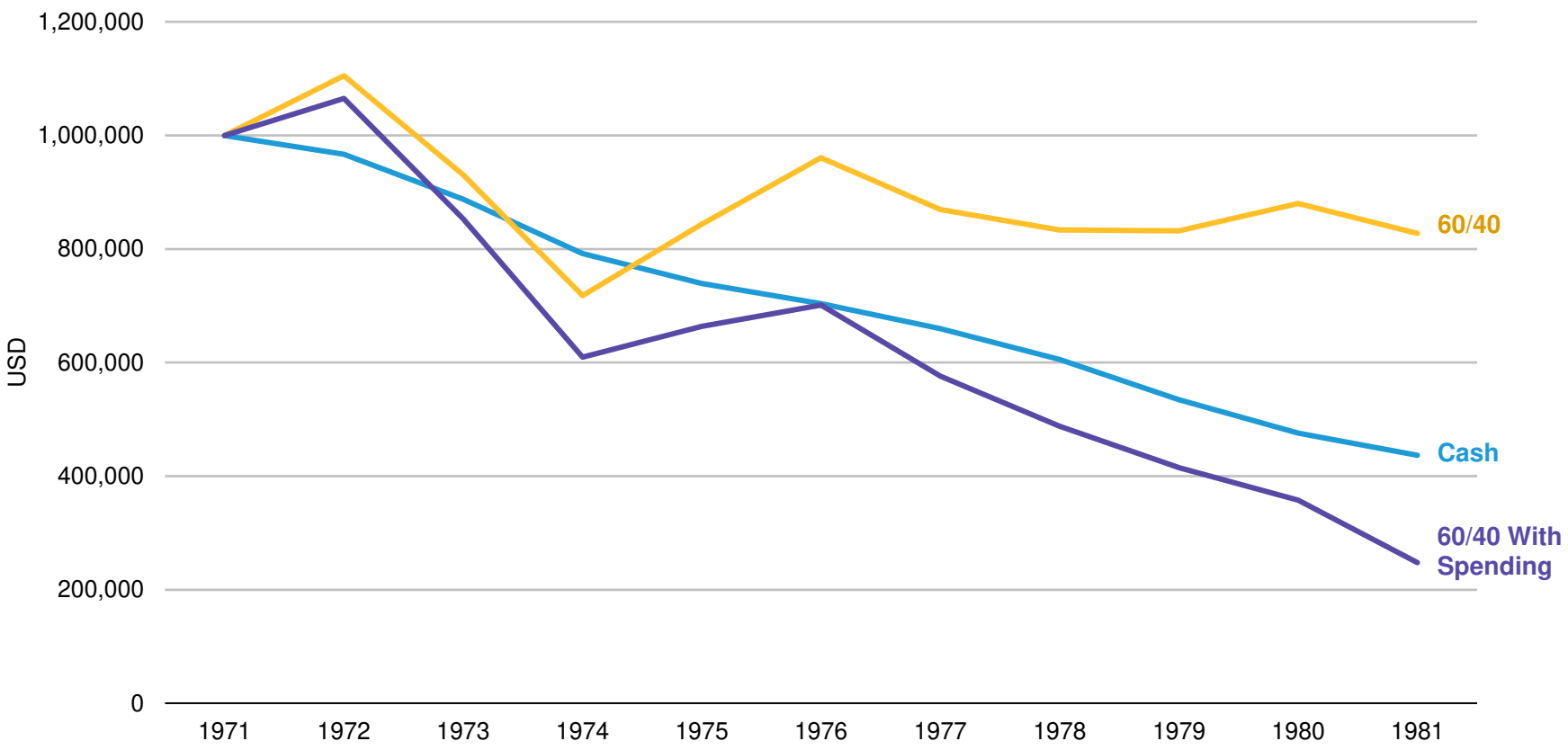
What You Need to Know to Protect Your Clients

David L. Askenase, CFA

Who Needs Inflation Protection?

Why Does Inflation Matter? It Can Destroy Wealth

This Is the Situation We Need to Avoid

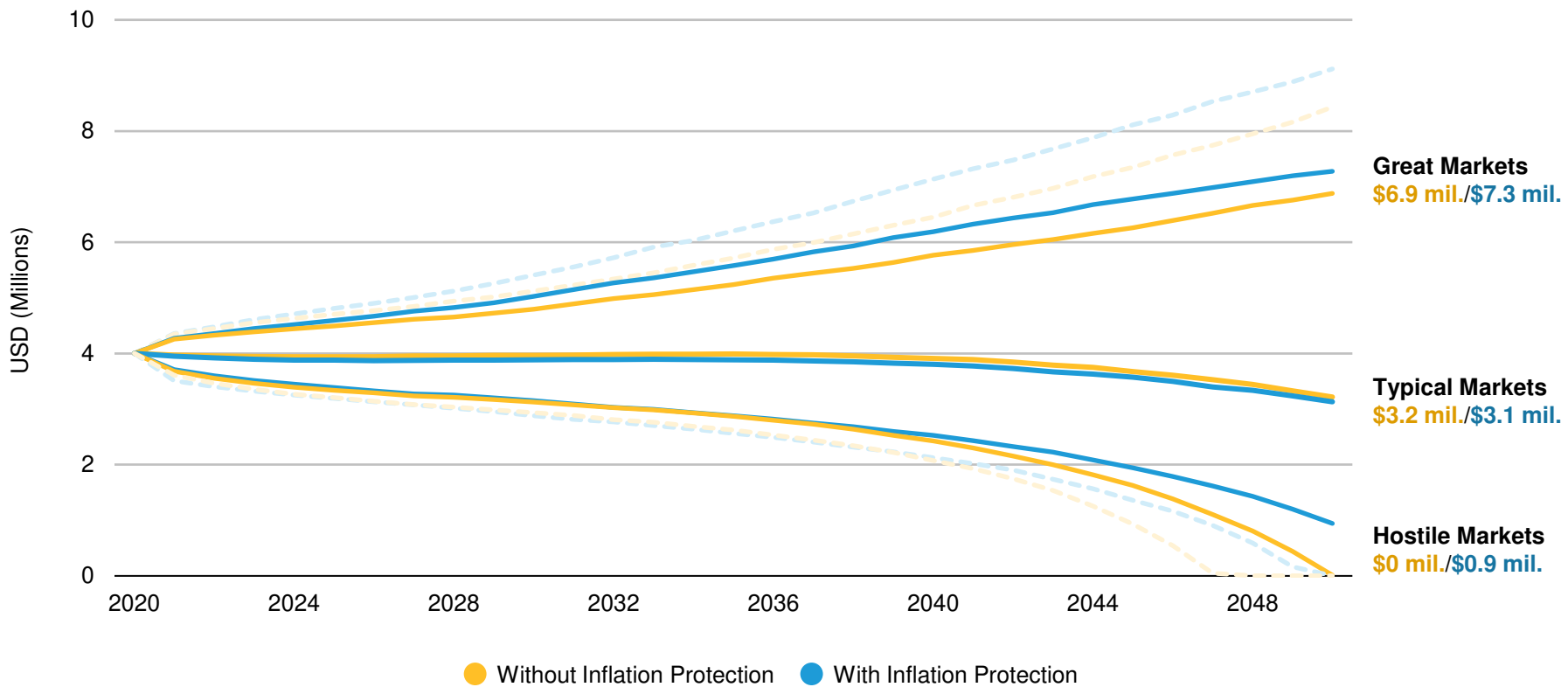


Historical analysis does not guarantee future results. Headline CPI inflation used as the deflator. Robert Shiller's historical S&P 500 returns used for equities and 10-year Treasuries used for bonds. Spending set as 4% of initial portfolio, adjusted for inflation.

Source: Bureau of Labor Statistics, Robert Shiller, and Bernstein analysis

Inflation Protection Can Be Valuable for Inflation-Sensitive Clients

Comparative Return Patterns for Protected and Unprotected Portfolios

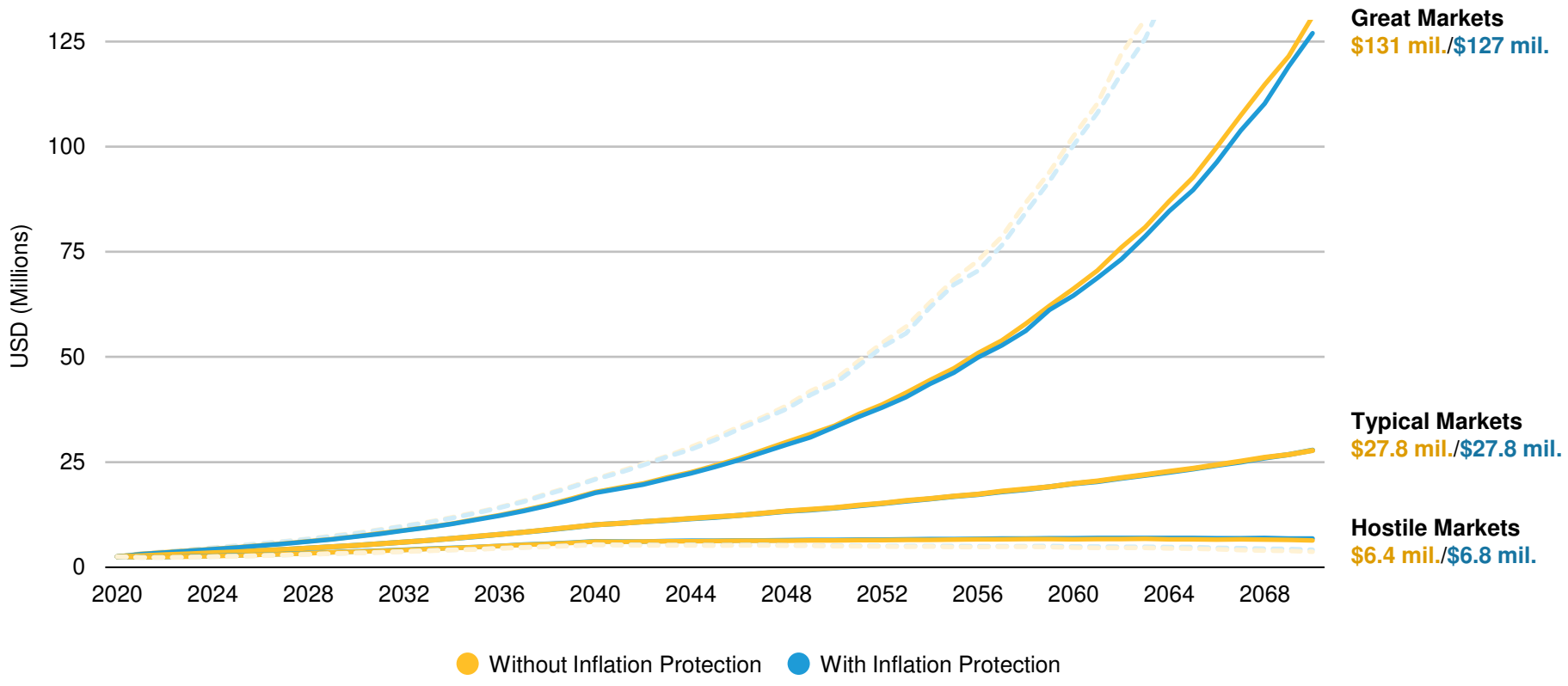


Current analysis does not guarantee future results. As of June 30, 2021. For illustrative purposes only. Hypothetical example based on 65-year-old client with 70% bonds, 30% equities, $4 mil. starting value, $120K spending in real terms. Inflation protection replaces 28 percentage points of nominal bonds with real bonds. Results will vary based on investor's circumstances and inflation sensitivity.

Source: Bernstein analysis

Inflation Protection is Less Critical for Less Sensitive Clients

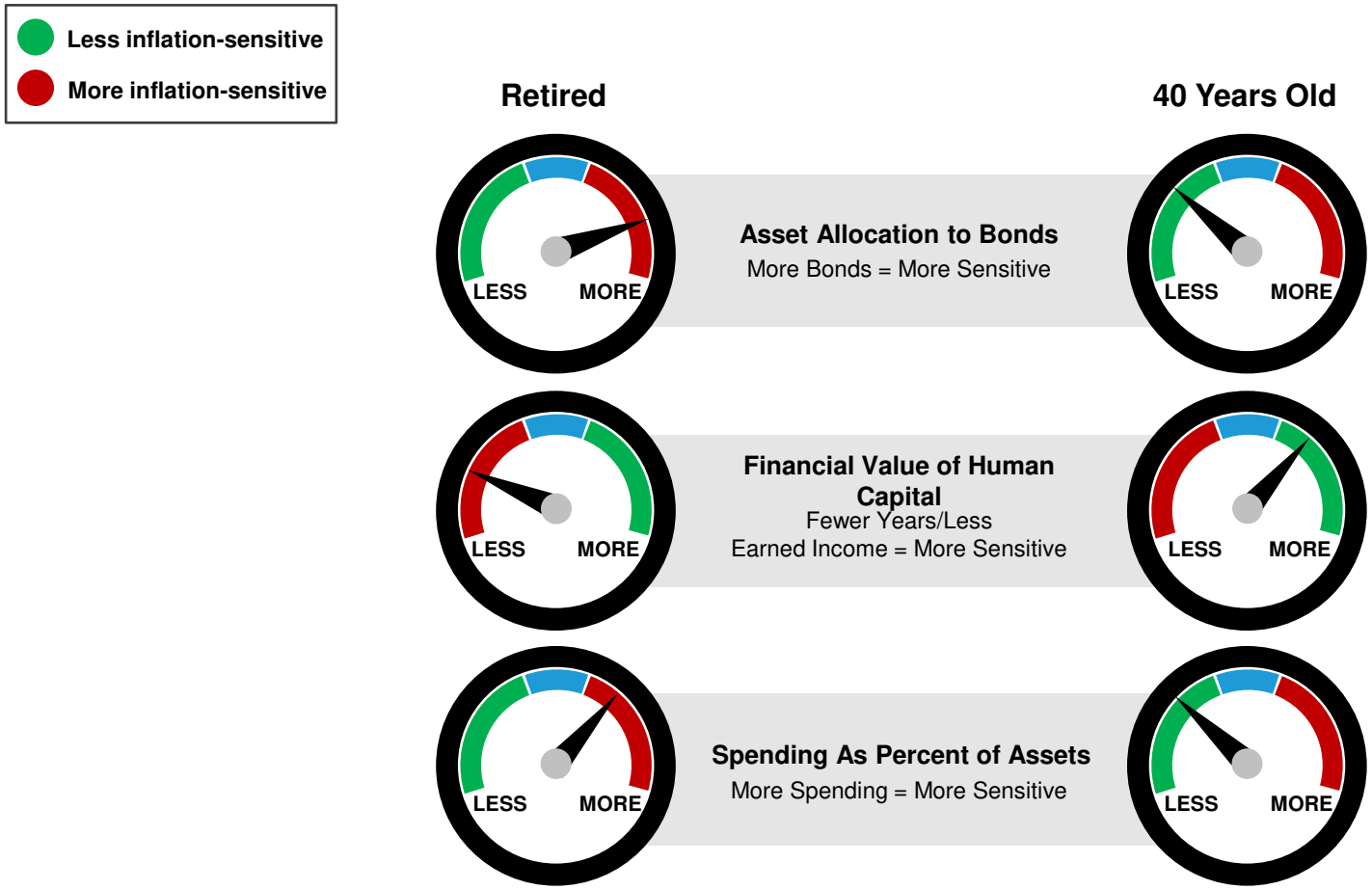
Comparative Return Patterns for Protected and Unprotected Portfolios



Current analysis does not guarantee future results. As of June 30, 2021. For illustrative purposes only. Hypothetical example based on 45-year-old client with 70% stocks, 30% bonds, $2.5 mil. starting value, $95K spending in real terms. Inflation protection replaces 1.6 percentage points of nominal bonds with real bonds and 5 percentage points of global equities with a portfolio of real assets and inflation-sensitive stocks. Results will vary based on investor's circumstances and inflation sensitivity.

Source: Bernstein analysis

Inflation Sensitivity Is Critical to the Asset Allocation Decision

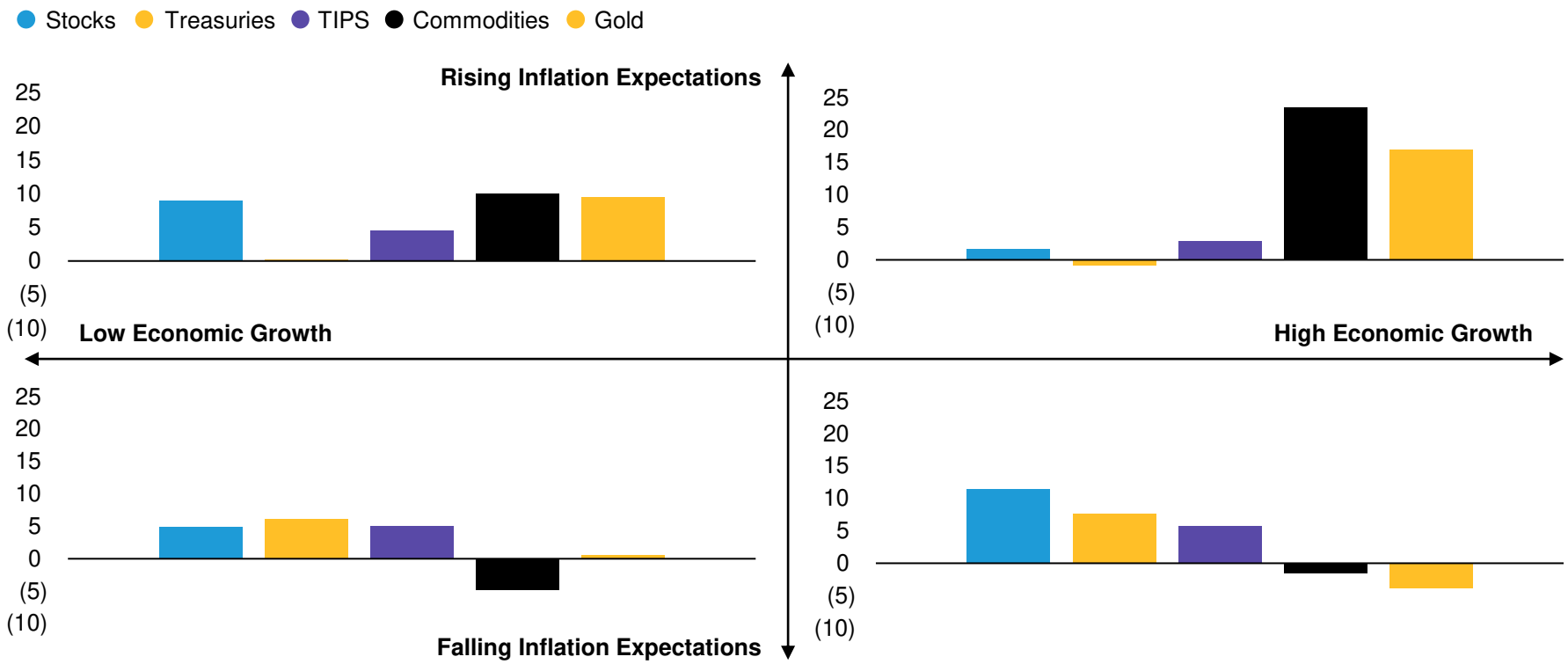


Hypothetical client profiles presented. Clients' risk tolerances and bond allocations may vary. Based on capital markets conditions as of June 30, 2021.
Historical analysis is not necessarily indicative of future results. There is no guarantee that any estimates or forecasts will be realized.
Source: Bernstein analysis

How Do We Protect Portfolios from Inflation?

Different Asset Classes Outperform in Different Macro Regimes

Why We Recommend a Blended Approach to Protect Against Inflation



Past performance does not guarantee future results. The information contained here reflects the views of AllianceBernstein L.P. or its affiliates and sources it believes are reliable as of the date of this publication. AllianceBernstein L.P. makes no representations or warranties concerning the accuracy of any data. There is no guarantee that any projection, forecast or opinion in this material will be realized. The views expressed here may change at any time after the date of this publication. This document is for informational purposes only and does not constitute investment advice. AllianceBernstein L.P. does not provide tax, legal or accounting advice. It does not take an investor's personal investment objectives or financial situation into account; investors should discuss their individual circumstances with appropriate professionals before making any decisions. This information should not be construed as sales or marketing material, or an offer or solicitation for the purchase or sale of any financial instrument, product or service sponsored by AllianceBernstein or its affiliates. References to specific securities are provided solely in the context of the analysis presented and are not to be considered recommendations by AllianceBernstein. Stocks represented by Robert Shiller's historical S&P 500 data. Treasuries represent long-dated Treasuries. TIPS represent 7—10 year TIPS. Commodities based on an index of commodity futures, inclusive of roll yield. Gold returns represent spot returns. Historical TIPS returns based on Federal Reserve backcasts and AB research.

Source: Robert Shiller, Bloomberg, Federal Reserve Board, and Bernstein analysis

No Single Asset Class Provides a Perfect Solution

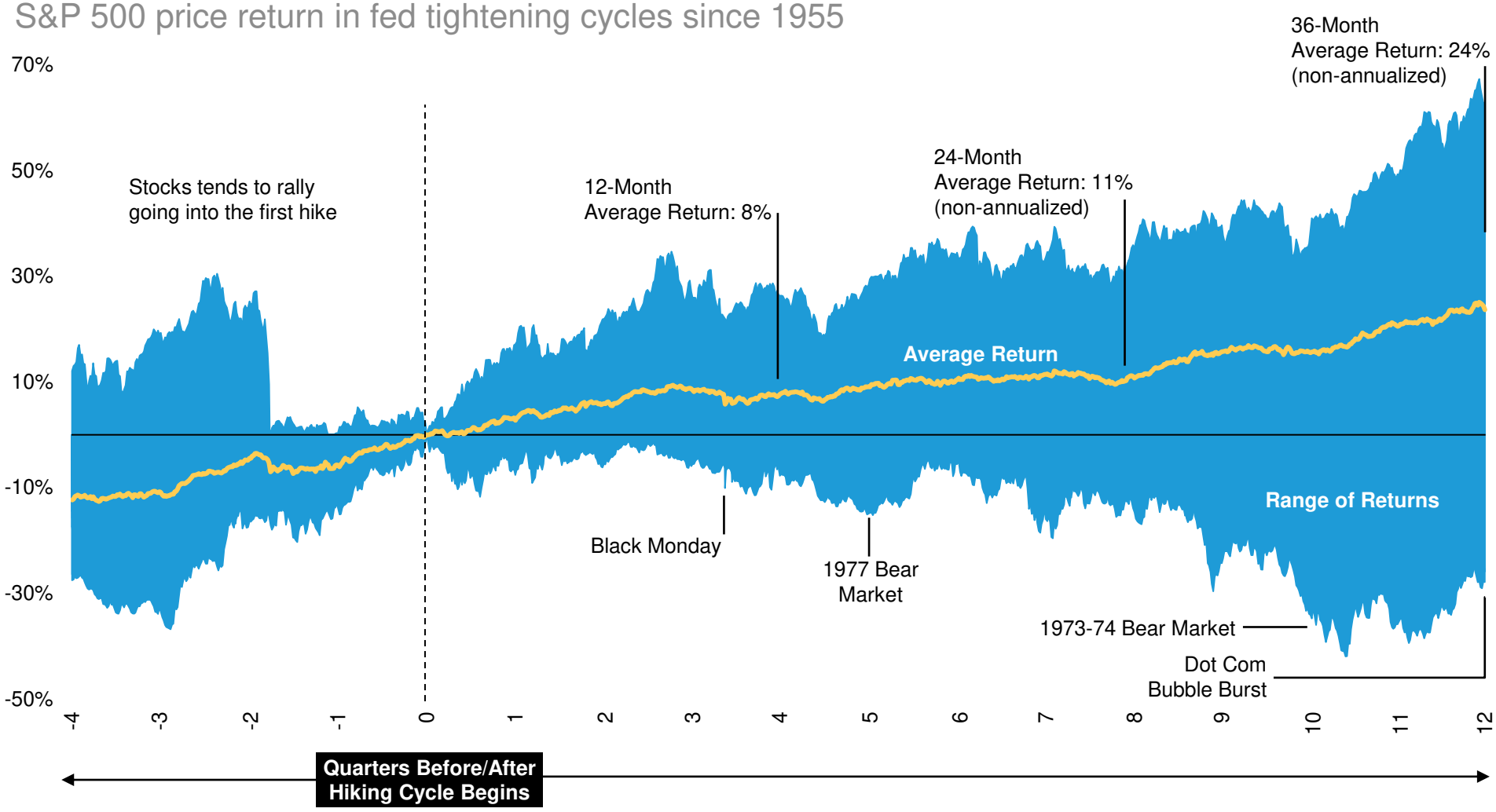
Portfolio	Constituents	Inflation Sensitivity	Reliability	Cost-Effectiveness
Real Bonds	Intermediate TIPS			
Real Assets	Portfolio of Real Assets			
	RE Stocks			
	Commodity Stocks			
	Inflation Sensitive Equities			
	Commodity Futures			
	Gold			

- Intermediate TIPS provide reasonable sensitivity with reliability and cost-effectiveness
- Real assets vary in their inflation characteristics, so a combination makes sense

As of September 1, 2021. **Historical analysis is not necessarily indicative of future results. There is no guarantee that any estimates or forecasts will be realized.**
Current analysis does not guarantee future results.
Source: AB\

What Could Rate Hikes Mean for Equity Returns?

S&P 500 price return in fed tightening cycles since 1955



As of December 31, 2021.

Historical analysis is not necessarily indicative of future results. There is no guarantee that any estimates or forecasts will be realized.

Range of Returns composed of S&P 500 Price Return over 13 Historic Fed Tightening Cycles beginning on the following dates: 9/5/1955, 9/12/1958, 7/17/1963, 3/1/1972, 12/1/1976, 8/7/1980, 5/2/1983, 12/16/1986, 3/29/1988, 2/4/1994, 6/30/1999, 6/30/2005, 12/16/2015.

Source: AB, Bloomberg

Cash Holdings Are Especially Vulnerable to Inflation

- CPI rose 7% in 2021, the largest increase since 1981.
- Cash, as measured by the S&P US Treasury Bill 0-3 Month Index, earned virtually nothing—eroding purchasing power by nearly 7%.
- Over the next 10 years, we expect cash to trail inflation by another 1.4% per year.

	2021	10-Year Projected*
US Inflation	7.0%†	3.0%
Cash Return	0.05%	1.6%
Cash Return (Inflation-Adjusted)	(6.95%)	(1.4%)

As of December 31, 2021.

Historical analysis is not necessarily indicative of future results. There is no guarantee that any estimates or forecasts will be realized.

†2021 US Inflation is the12-month percent change in CPI through December 2021.

*Based on AB's estimates of the range of returns for the applicable capital markets as of December 31, 2021 over the period analyzed. Data do not represent past performance and are not a promise or a range of future results. See Appendix for further details.

Source: Standard & Poor's, FactSet and AB

Key Inflation Advice Conclusions

- Inflation can be extremely detrimental for investors
- It's incredibly hard to predict, especially further into the future
- For all investors, and in particular inflation-sensitive investors, protection can be helpful
- Your inflation sensitivity is primarily driven by the financial value of your human capital, your risk tolerance/asset allocation, and your spending patterns
- Current price pressures are likely to ease over the course of 2022
- Over the long term, there are risks to both the upside and the downside. The upside risks appear greater today than at any point in recent history, but are still *risks* not *guarantees*
- The best inflation protection comes from a blend of stocks with pricing power, inflation-protected bonds or inflation swaps, real estate, real assets like commodity futures, and potentially private investments

As of December 1, 2021. **Historical analysis is not necessarily indicative of future results. There is no guarantee that any estimates or forecasts will be realized.**
Source: AB

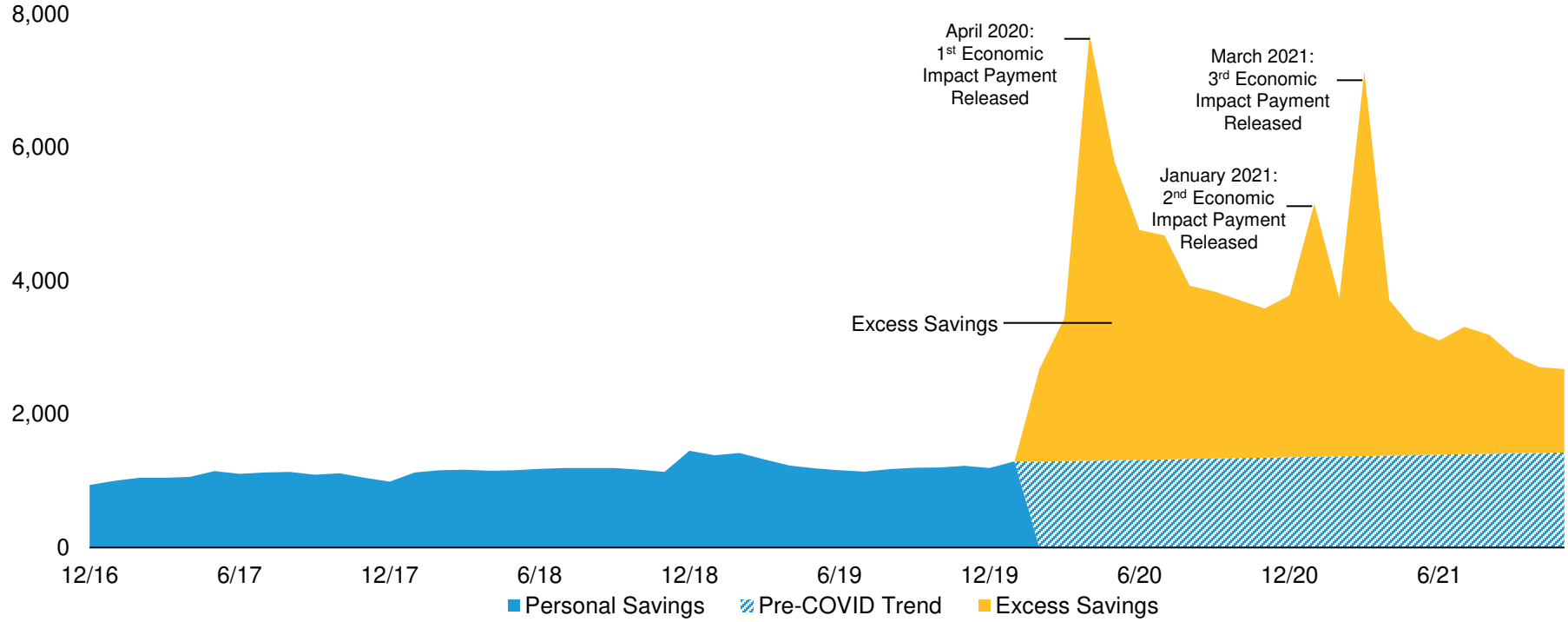
What's Driving Inflation and How Can It End?

Will Excess Savings Be Spent or Saved?

$1.3T of excess savings could serve as an additional tailwind for the economy

Personal Savings, Pre- and Post-Crisis

The spending of excess savings over the last two years has been a tailwind for the economy. It's likely the pace of spending slows…which should lead to slower 2022 growth, but may also ease some of the demand-driven inflationary pressures.



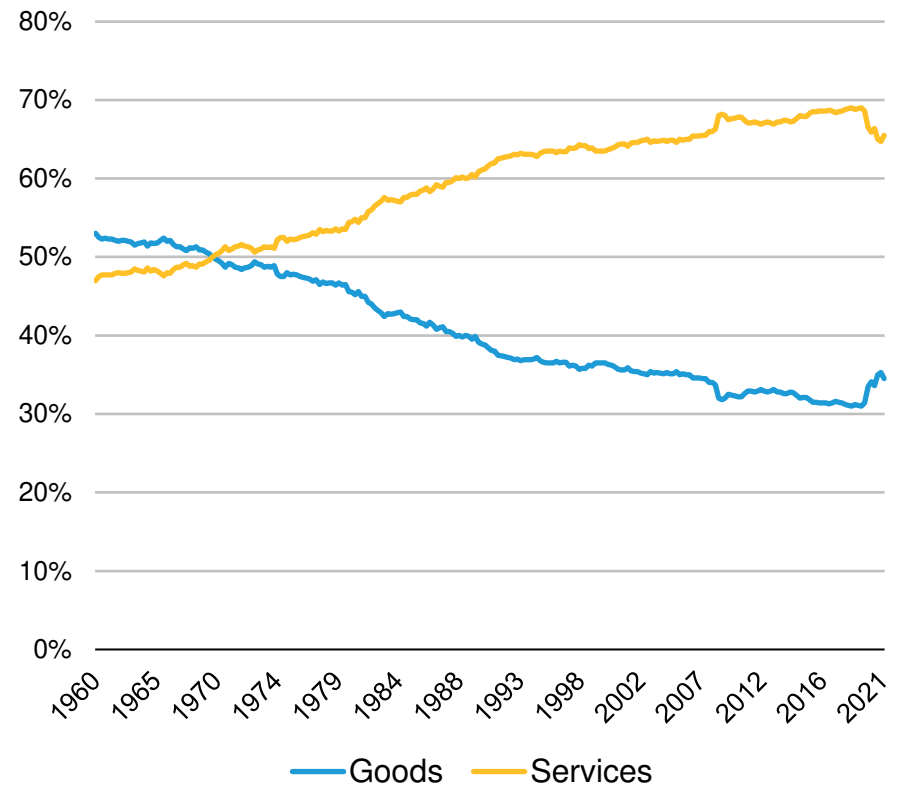
As of November 30, 2021.

Historical analysis is not necessarily indicative of future results. There is no guarantee that any estimates or forecasts will be realized.

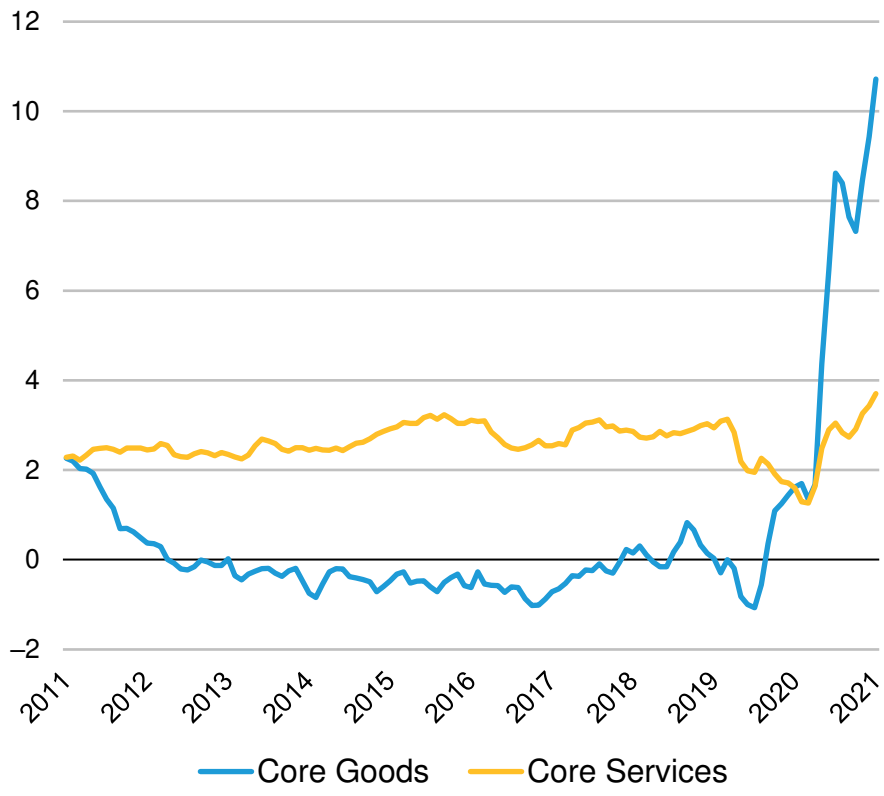
Source: AB, Factset

A Massive Shift in Demand Toward Goods Has Fueled Inflation

Share of Consumption



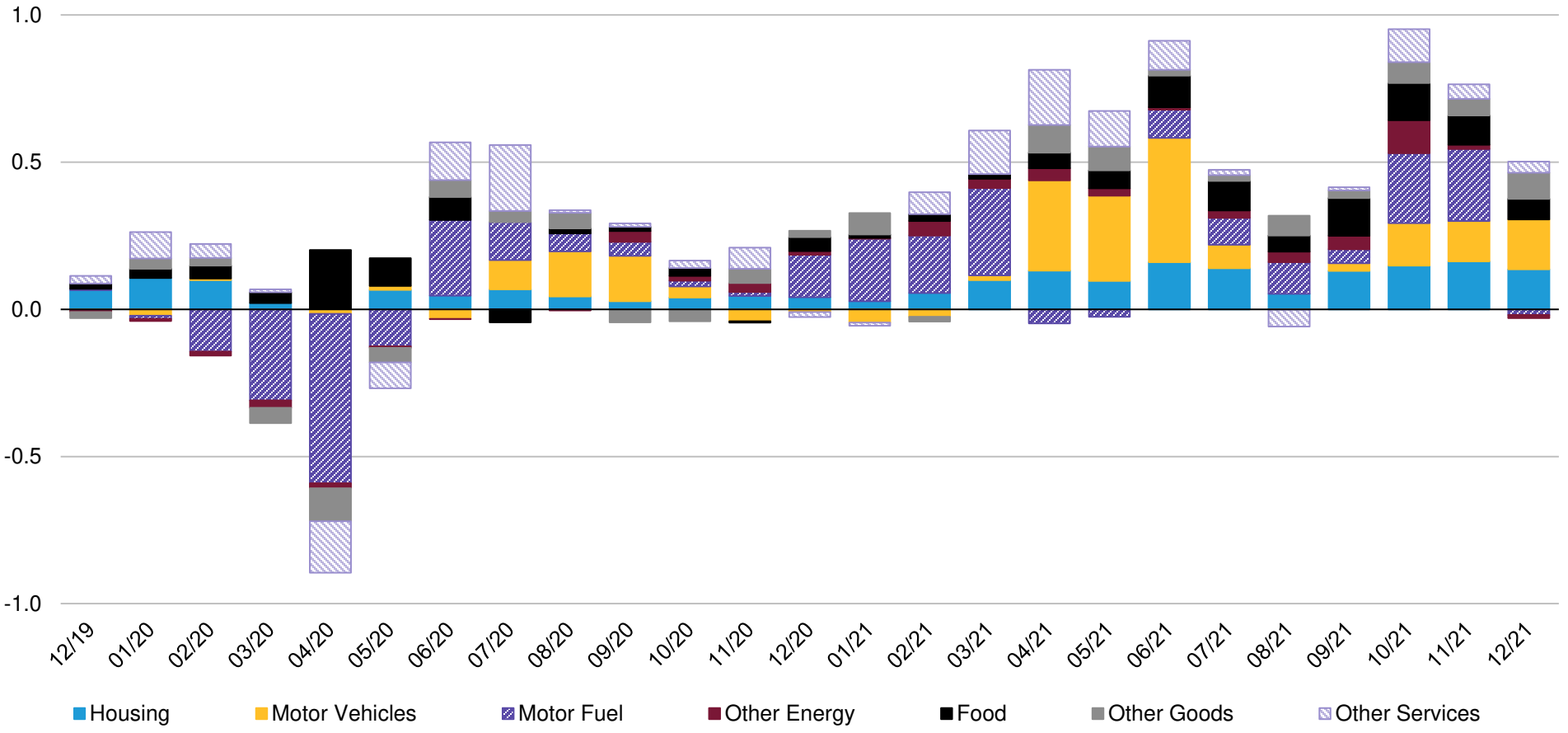
Inflation (YoY)



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Haver Analytics, and Bernstein analysis

What's Been Driving Inflation? Cars, Gas, and Housing

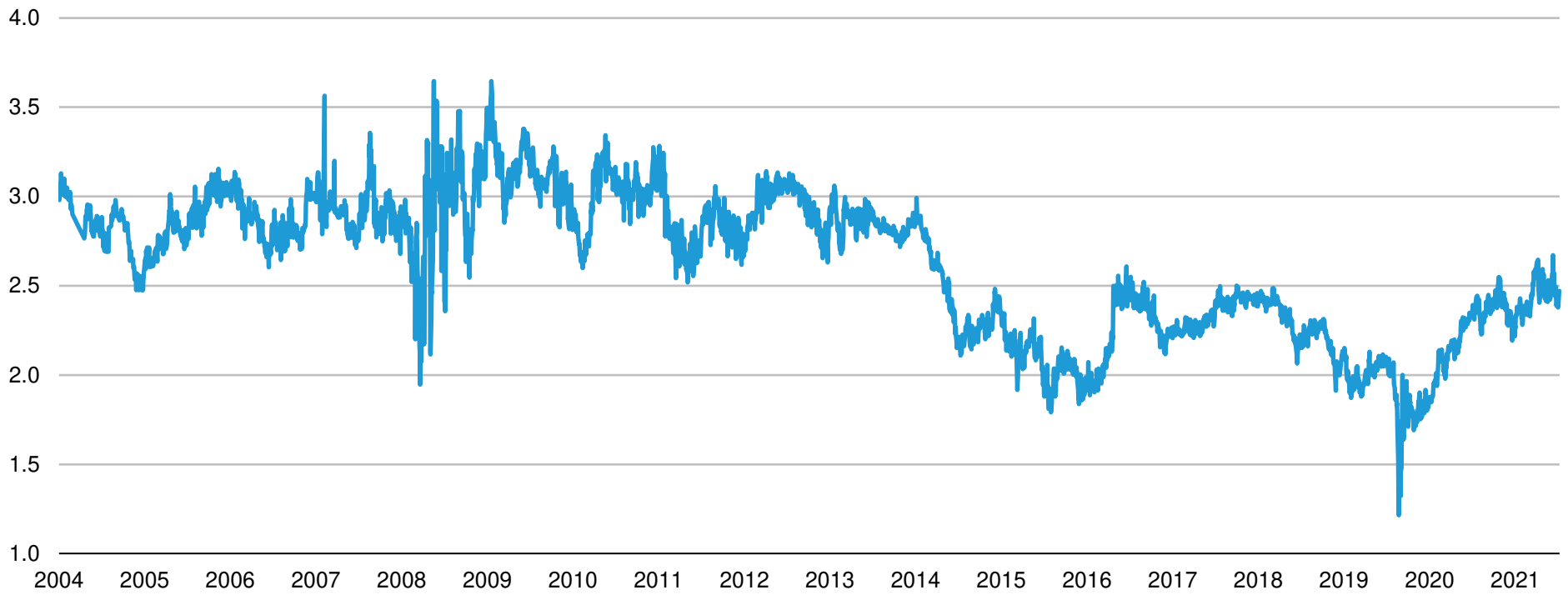
Contribution to CPI Change (MoM)



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Haver Analytics, and Bernstein analysis

The Market's Expectations of Inflation Are Still Well-Anchored

5Y5Y Forward Inflation Swaps (Percent)



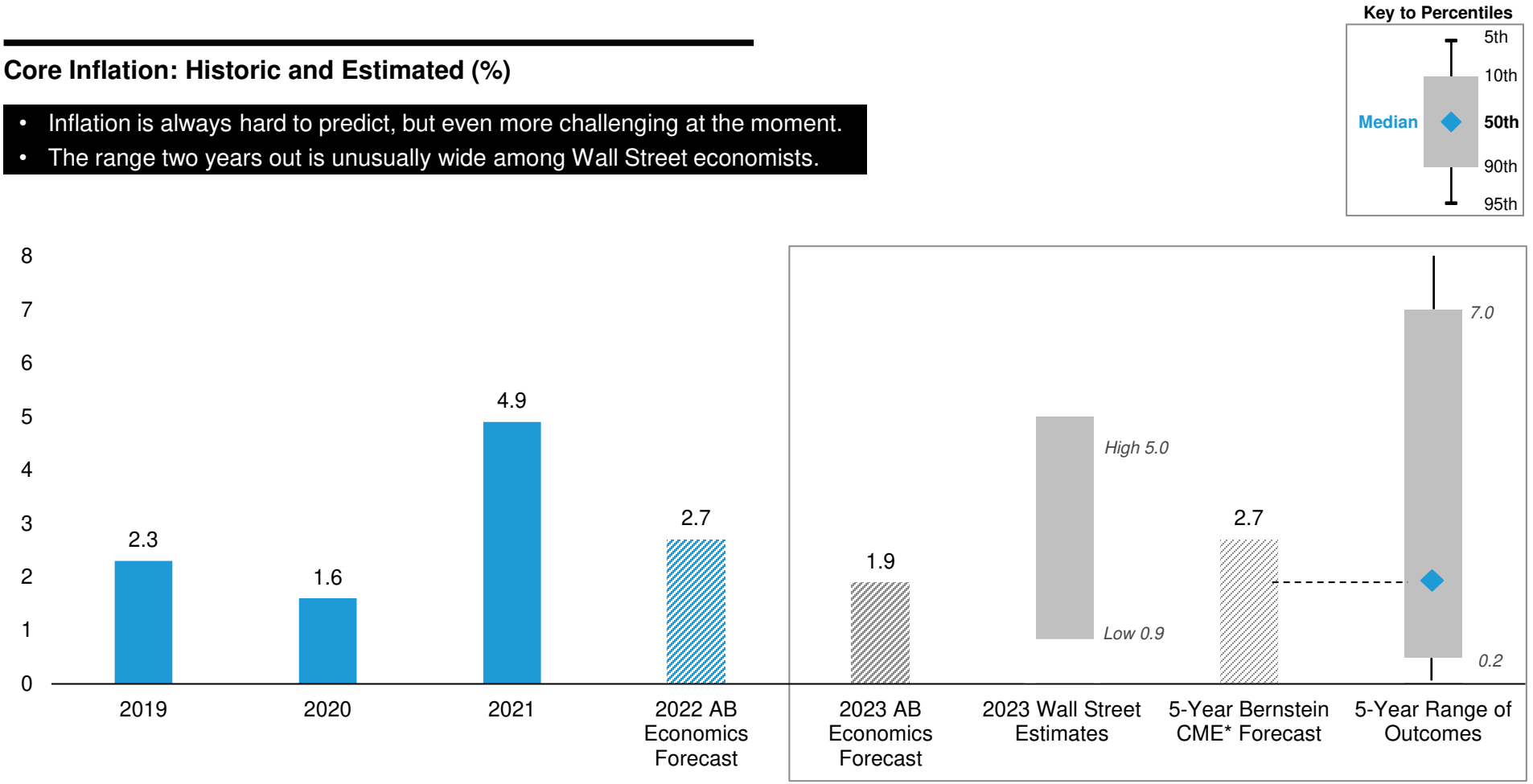
Source: Bloomberg and Bernstein analysis

Inflation Forecasts Are Highly Uncertain, Even Among Economists

2023 Wall Street expectations range from disinflation to accelerating inflation

Core Inflation: Historic and Estimated (%)

- Inflation is always hard to predict, but even more challenging at the moment.
- The range two years out is unusually wide among Wall Street economists.



As of December 31, 2021. **Historical analysis is not necessarily indicative of future results. There is no guarantee that any estimates or forecasts will be realized.** 2021 is 12-month percent change through November 2021, the latest available CPI. All data points are for the US.

*Capital Markets Engine

Source: AB, Bloomberg

How Does Inflation Impact Planning for Core and Surplus Capital?

Core Capital—A Disciplined, Research-Based Framework

Hierarchy of Objectives

Lifestyle Spending

Core Capital*
Assures long-term well-being

Children/ Grandchildren

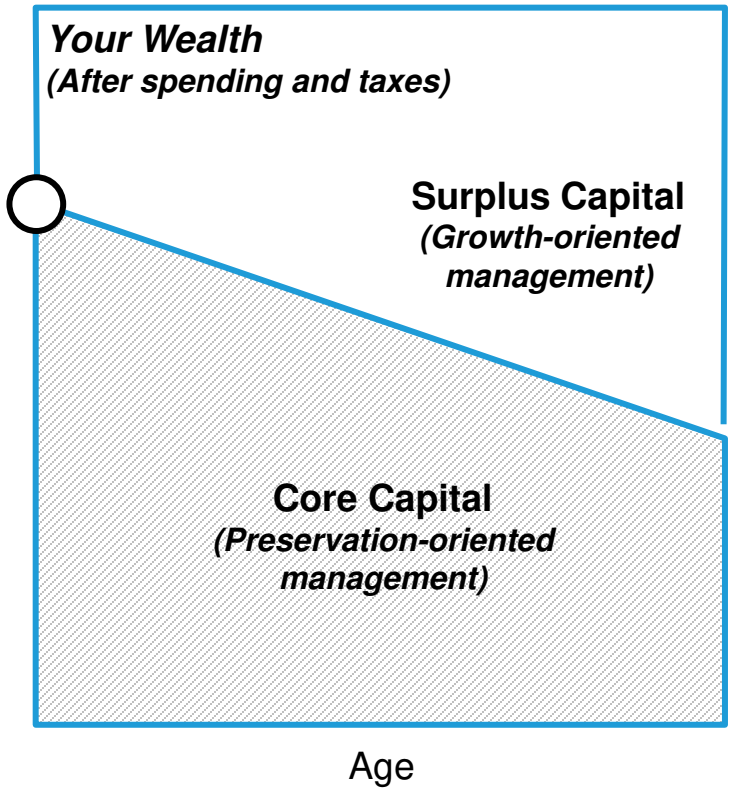
Discretionary Spending

New Ventures

Charity

Surplus Capital
Provides for other goals

The Critical Goal



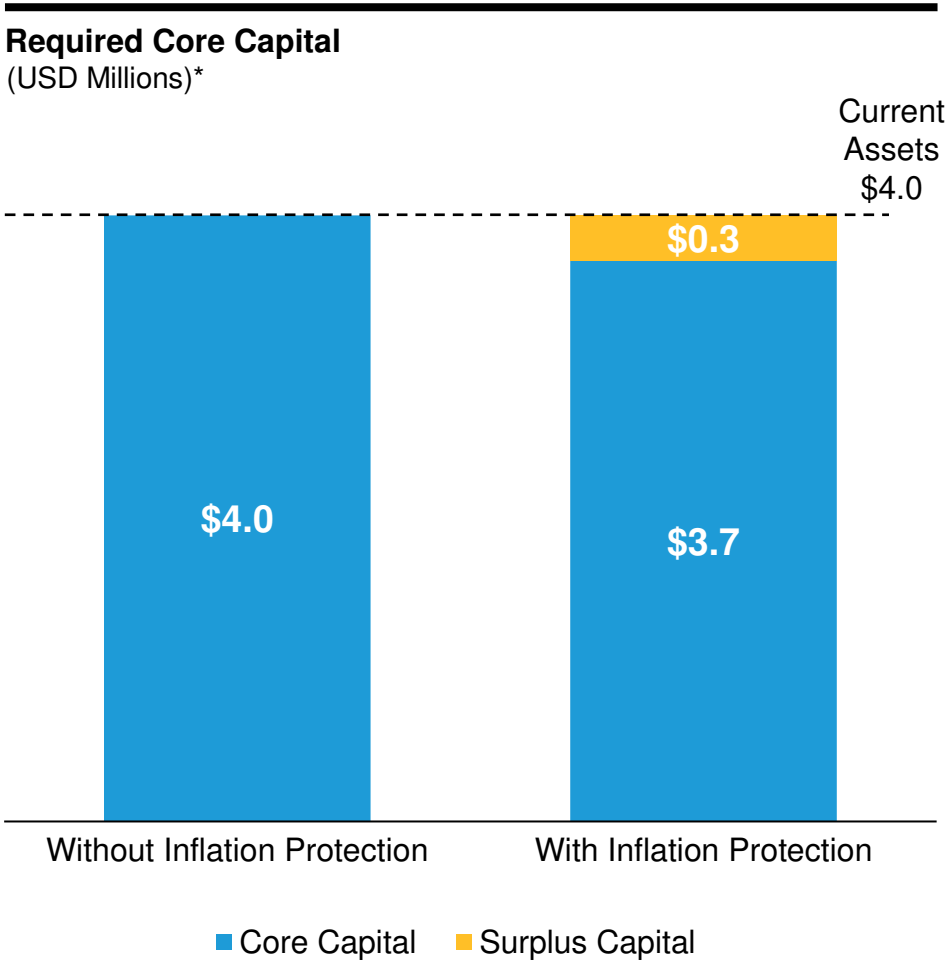
*The amount needed to support your lifestyle as long as you live.

Source: AB

Inflation Protection Can Reduce Required Core Capital for Risk-Averse Investors

Inflation-Sensitive Investor:

- 65-year-old single New York resident
- $4 million portfolio invested 30% stocks/70% bonds
- Spending $120,000 annually after taxes
- Will collect $31,800 of Social Security at age 66



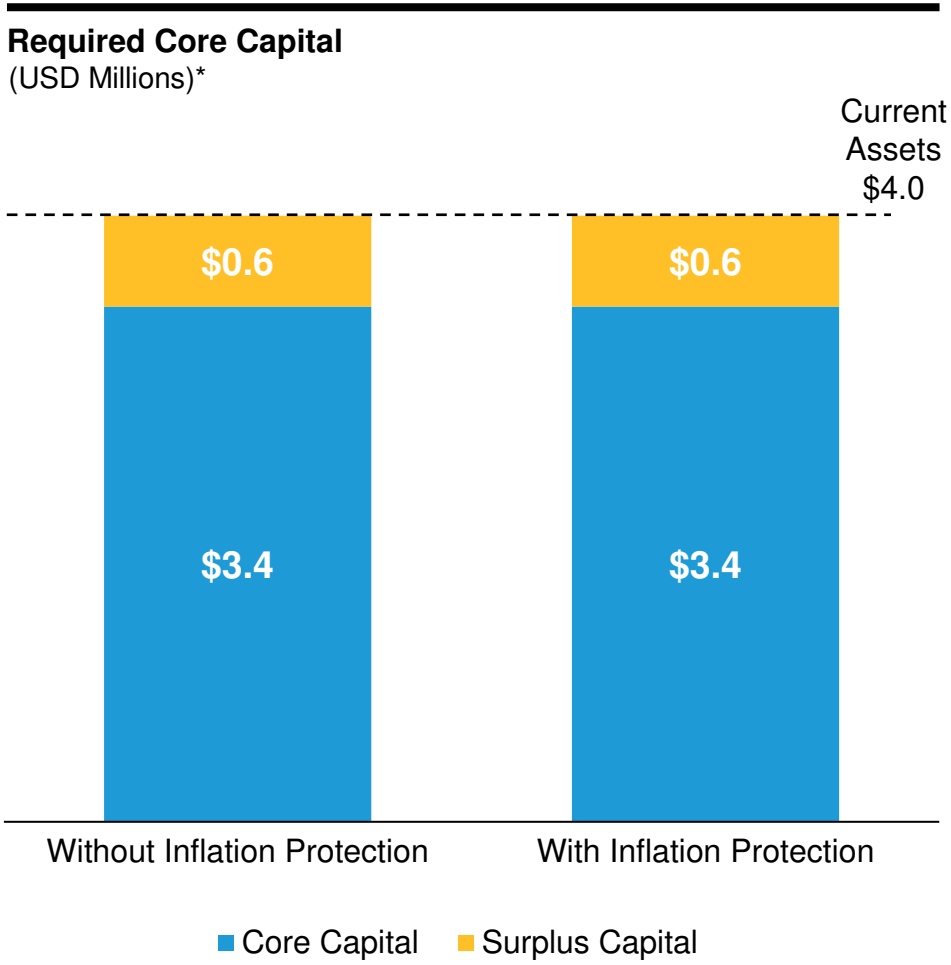
*Single Life, Confidence Level = 90%, Cash Cushion = $0.

Based on AB'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 Notes on Bernstein Wealth Forecasting System in the Appendix for further details.

Inflation Protection Has Little Impact on Required Core Capital for More Risk-Tolerant Investors

Less Inflation-Sensitive Investor:

- 65-year-old single New York resident
- $4 million portfolio invested **70% stocks/30% bonds**
- Spending $120,000 annually after taxes
- Will collect $31,800 of Social Security at age 66



*Single Life, Confidence Level = 90%, Cash Cushion = $0.

Based on AB'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 Notes on Bernstein Wealth Forecasting System in the Appendix for further details.

Inflation Can Cause Unexpected Increases in Income Taxes

Switch to Chained CPI-U

- Each year, the federal income tax brackets increase with inflation.
- Starting in 2018, the IRS switched its inflation index from the traditional Consumer Price Index (CPI) to the Chained Consumer Price Index for All Urban Consumers (C-CPI-U).
- Congressional Budget Office expects chained CPI-U to run about 0.25% per year below traditional CPI.*
- Over time, this should reduce the inflation adjustments in the tax code and increase the burden on taxpayers.

Certain Tax Provisions Are Not Indexed for Inflation

- The income limit at which taxpayers become subject to the 3.8% Net Investment Income Tax has remained fixed at $250,000 for married joint filers since it went into effect in 2013.
- Ten states with graduated income tax brackets don't index them for inflation.**
- As a result, certain taxpayers will see their purchasing power eroded faster in inflationary environments.

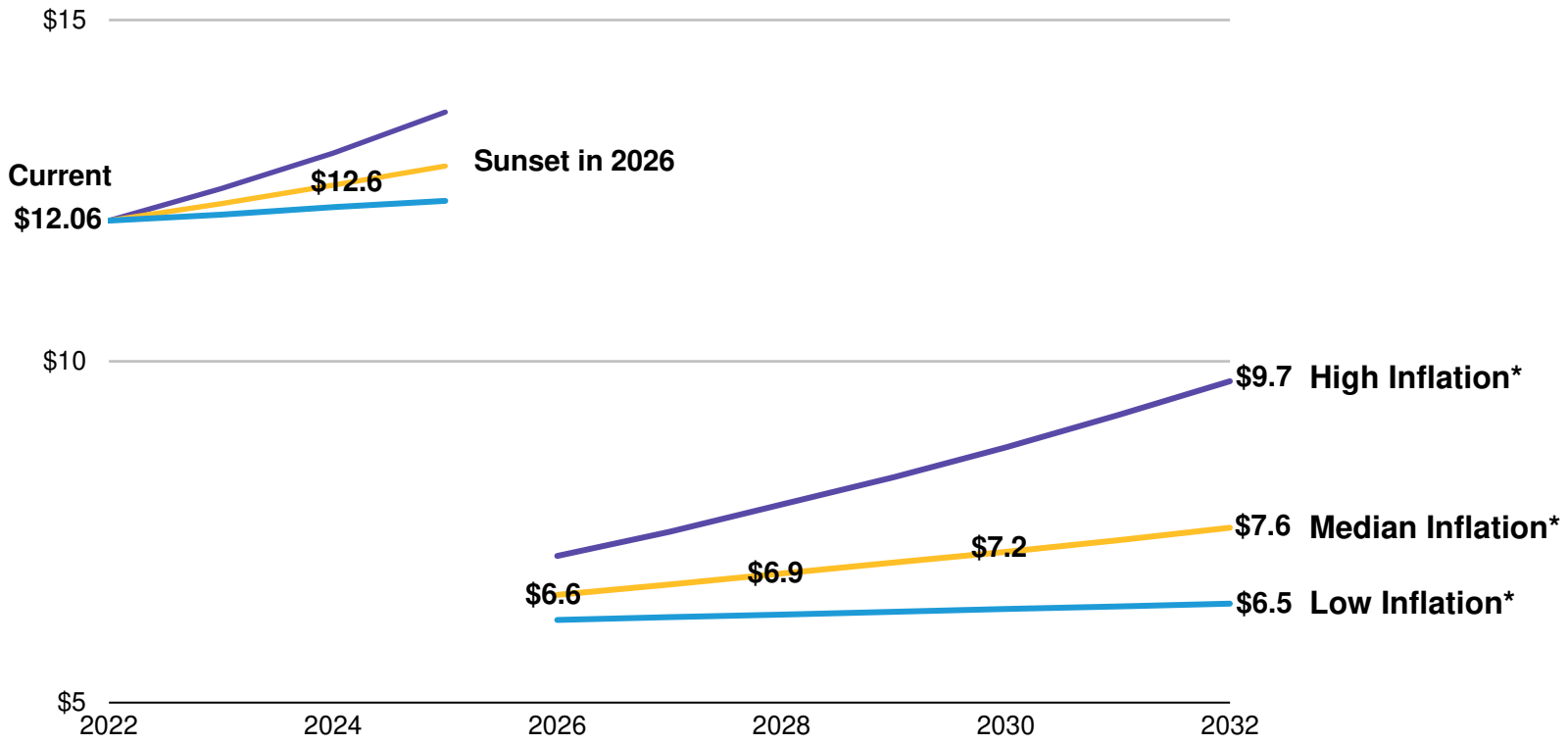
*Source: McClelland, Rob. Differences Between the Traditional CPI and Chained CPI. Congressional Budget Office, April 19, 2013.

**As of 2019, those states were Alabama, Connecticut, Delaware, Georgia, Hawaii, Kansas, Maryland, Mississippi, Virginia, and West Virginia.
Source: Walczak, Jared. Inflation Adjusting State Tax Codes: A Primer. Tax Foundation.org, October 29, 2019

Despite the Sunset, the Reduced Basic Exclusion Increases with Inflation

Basic Exclusion Amount
Nominal (USD Millions)

In 2022, the Basic Exclusion Amount increased to $12.06 million from $11.7 million in 2021



*Based on projected increases in "chained" CPI-U, rounded to the nearest $100,000 in this display. Basic exclusion amount shown is for an individual, based upon 10th ("high"), 50th ("median"), and 90th ("low") percentile outcomes for the inflation-adjusted basic 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 Notes on Bernstein Wealth Forecasting System in the Appendix for further details.

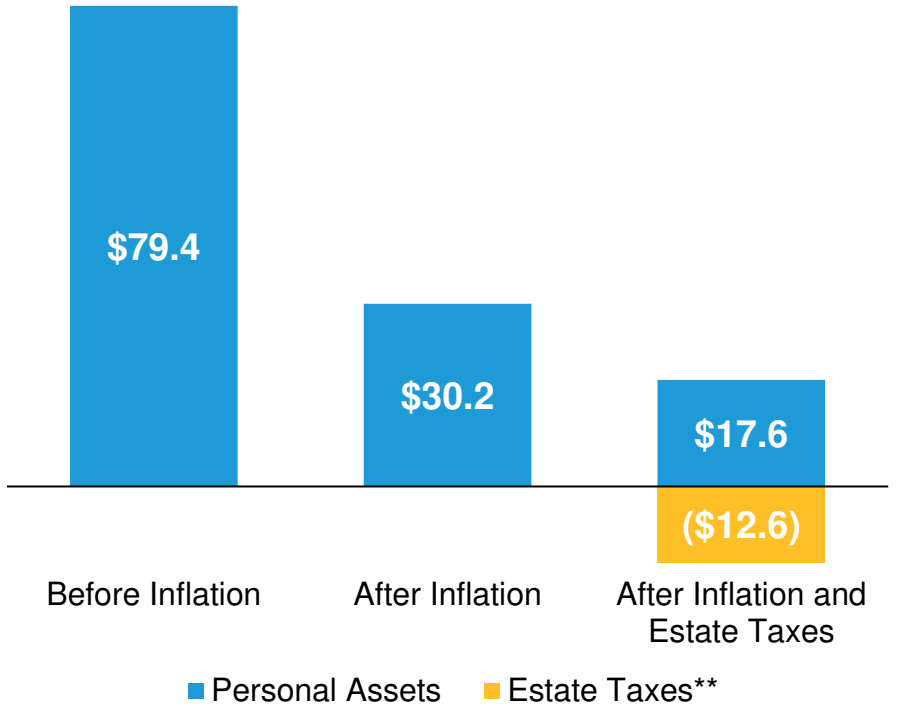
Source: AB

Inflation and Estate Taxes Can Take a Big Bite Out of a Legacy

Investor with Surplus Capital:

- 65-year-old single New York resident
- $25 million portfolio invested 70% stocks/30% bonds with inflation protection
- Spending $120,000 annually after taxes
- Will collect Social Security at age 66
- Hopes to preserve $25 million legacy for her heirs

Portfolio Value: Year 30
Typical Markets* (USD Millions)



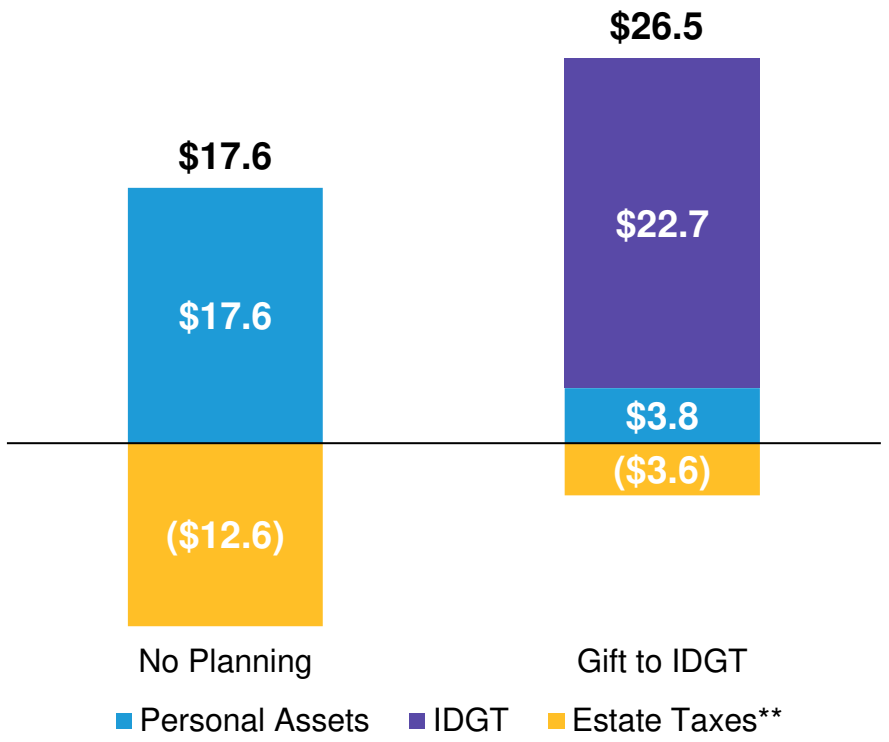
*"Typical Markets" means 50th percentile results of 10,000 trials in our Wealth Forecasting System. Based on AB's estimates of the range of returns for the applicable capital markets (as of 6/30/2021).
**In all Scenarios, we have assumed the current estate tax exclusion will sunset. Thus, we have accounted for your remaining applicable exclusion amount of $6.03 million, adjusted with chained inflation over 30 years, reduced by any gifts, then discounted at the chained inflation rate of 2.42% over 30 years. Assumes a marginal federal estate tax rate of 40% on assets in excess of the remaining exclusion amount and marginal state estate tax of 16% on all assets. Please see "Analysis Assumptions" for more information about assumed assets and allocations. Data do not represent past performance and are not a promise of actual future results or a range of future results. Asset values represent the estimated market value; if the assets were liquidated, additional capital gains or losses would be realized that are not reflected here. See Notes on Bernstein Wealth Forecasting System in the Appendix for further details. Numbers may not sum due to rounding.

Mitigating Estate Taxes Is Critical in an Inflationary Environment

Planning Strategy:

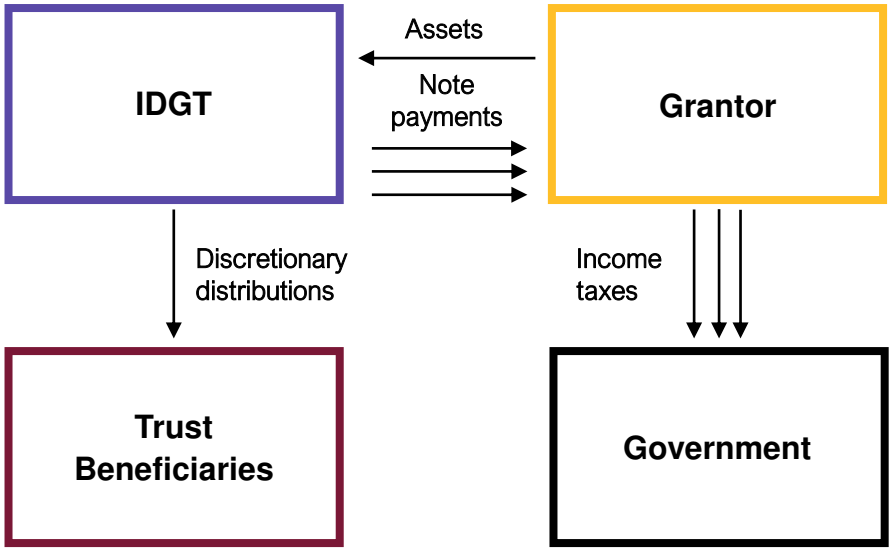
- Give $12.06 million to an Intentionally Defective Grantor Trust (IDGT)
- Utilizes basic exclusion amount before potential reduction or sunset
- Trust assets are excluded from grantor's estate
- Grantor is responsible for paying income taxes on the income and realized gains generated by trust assets

Portfolio Value After Inflation: Year 30
Typical Markets* (USD Millions)



*"Typical Markets" means 50th percentile results of 10,000 trials in our Wealth Forecasting System. Based on AB's estimates of the range of returns for the applicable capital markets (as of 6/30/2021).
**In all Scenarios, we have assumed the current estate tax exclusion will sunset. Thus, we have accounted for your remaining applicable exclusion amount of $6.03 million, adjusted with chained inflation over 30 years, reduced by any gifts, then discounted at the chained inflation rate of 2.42% over 30 years. Assumes a marginal federal estate tax rate of 40% on assets in excess of the remaining exclusion amount and marginal state estate tax of 16% on all assets. Please see "Analysis Assumptions" for more information about assumed assets and allocations. Data do not represent past performance and are not a promise of actual future results or a range of future results. Asset values represent the estimated market value; if the assets were liquidated, additional capital gains or losses would be realized that are not reflected here. See Notes on Bernstein Wealth Forecasting System in the Appendix for further details. Numbers may not sum due to rounding.

Installment Sale to Intentionally Defective Grantor Trust (IDGT)



Key points:

- Grantor transfers assets to IDGT
- Collectively, transfer is 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 at the end of the ninth year
- Until then, Grantor pays all income taxes on behalf of IDGT and its beneficiaries
- Annual growth in excess of mid-term AFR 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.

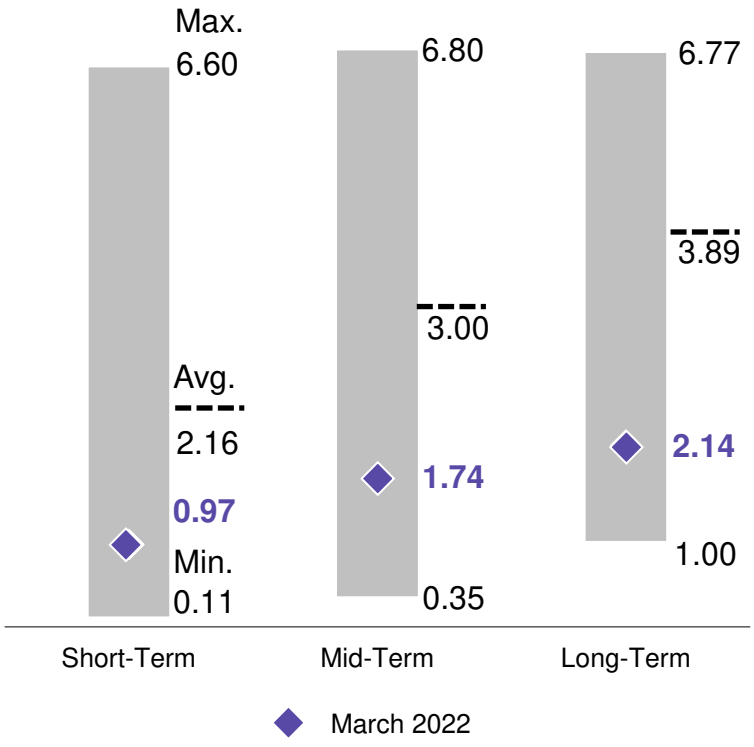
*Potential benefit to trust and its beneficiaries equals post-transfer growth of assets given, plus growth of assets sold in excess of interest payable.

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.

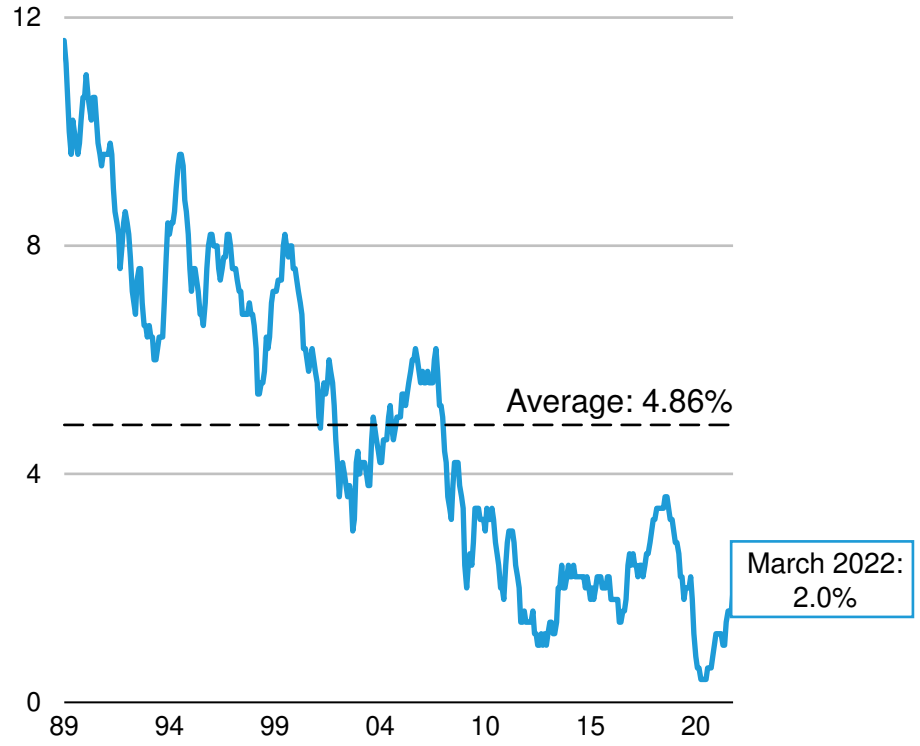
Source: AB

March 2022 AFRs and Section 7520 Rate: Low but Rising

Applicable Federal Rates: January 1998–Present
(Percent)



Section 7520 Rate:* May 1989–Present
(Percent)



Section 1274(d) and 7520 of the Internal Revenue Code of 1986, as amended (Code). Rates as of March 2022. See Rev. Rul. 2022-4.
Source: IRS and AllianceBernstein

Installment Sale to Intentionally Defective Grantor Trust (IDGT)

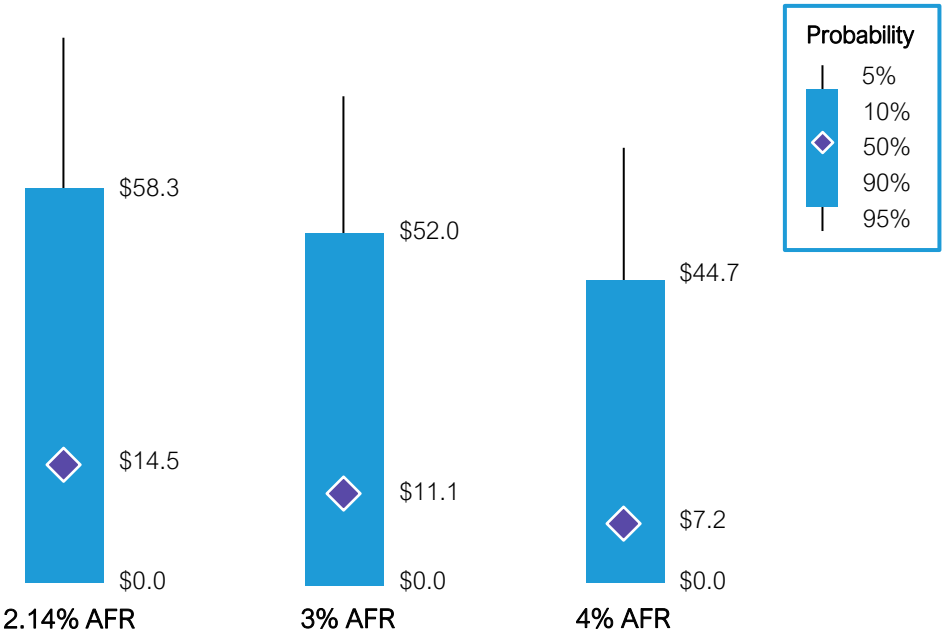
Analysis Assumptions

- Grantor sells $10 million of globally diversified equities to an intentionally defective grantor trust (IDGT) established for the benefit of his children and grandchildren
- The grantor is responsible for the payment of all income taxes on the IDGT
- The trustee of the IDGT issues a $10 million interest-bearing promissory note as payment
- Each year over the 20-year term, the trustee makes an interest payment to the grantor, and at the end of the 20th year, the trustee makes a $10 million principal payment

Interest Rate Scenarios

- March 2022 long-term AFR 2.14% | Annual interest payment of $214,000
- 3% AFR | Annual interest payment of $300,000
- 4% AFR | Annual interest payment of $400,000

Range of Wealth Transferred—Year 20
(USD Millions, Nominal)



Low interest rates increase the opportunity for wealth transfer. Act now, before inflation and interest rates rise further.

The foregoing analysis reflects expected returns under market conditions, including the AFR, in effect at the time of this writing. Higher future interest rates may drive marginally higher expected returns than those displayed. Based on AB'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 or range of future results. Asset values represent the estimated market value; if the assets were liquidated, additional capital gains or losses would be realized that are not reflected here. See Notes on Bernstein Wealth Forecasting System in the Appendix for further details.

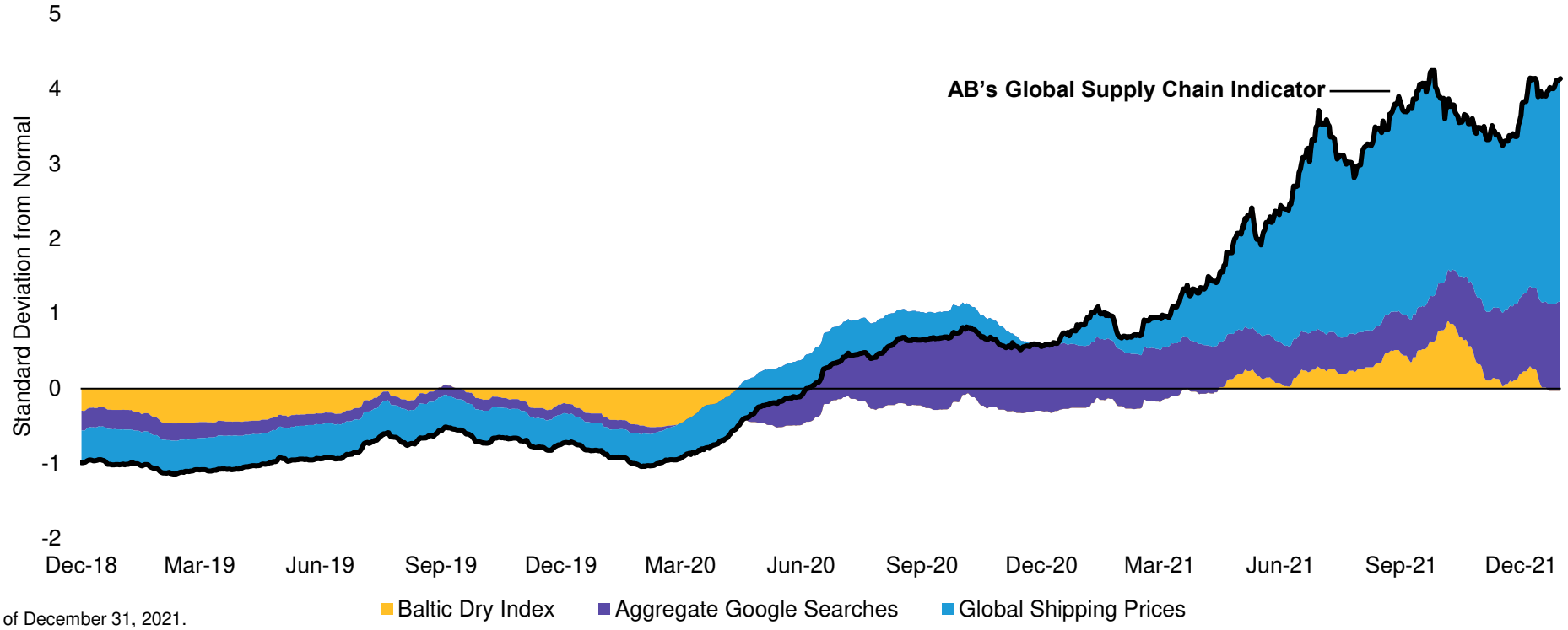
Appendix

We’re Tracking the Global Supply Chain for Signs of Easing

An easing of shipping prices may be the first indication of relief

Contributions to AB’s Global Supply-Chain Indicator

- Traditional measures of supply chain operations are less relevant and/or stale due to the fluidity of the pandemic’s challenges.
- We’ve built our own real-time supply chain indicator to better understand when the pressures may ease.



As of December 31, 2021.

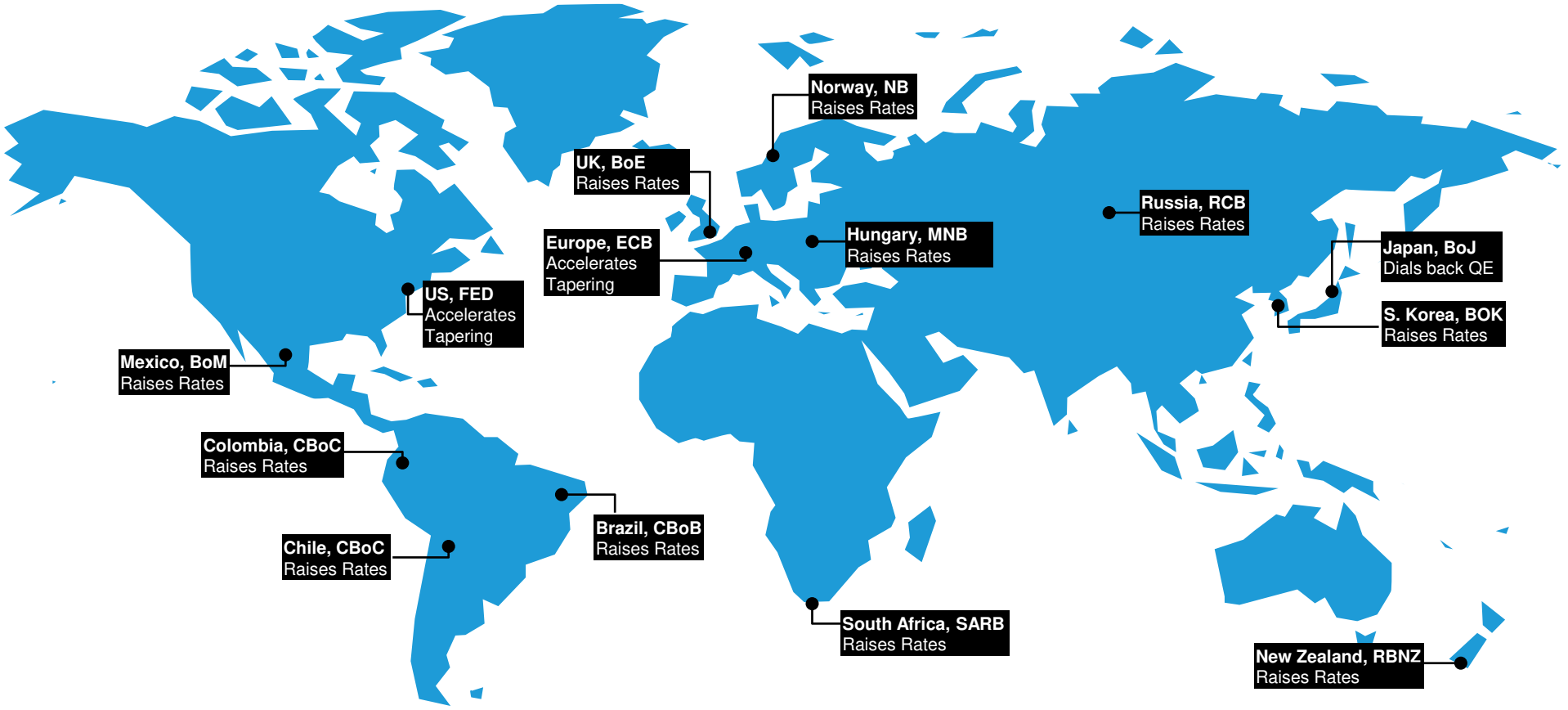
Historical analysis is not necessarily indicative of future results. There is no guarantee that any estimates or forecasts will be realized.

Aggregate Google Searches Comprise of: Food Shortages, Bottleneck, Supply Disruption, Supply Chain Disruption.

Source: AB, Bloomberg, Google, Baltic Exchange

Central Banks Have Begun to Tighten to Stem Inflation Risks

Recent policy moves from major central banks

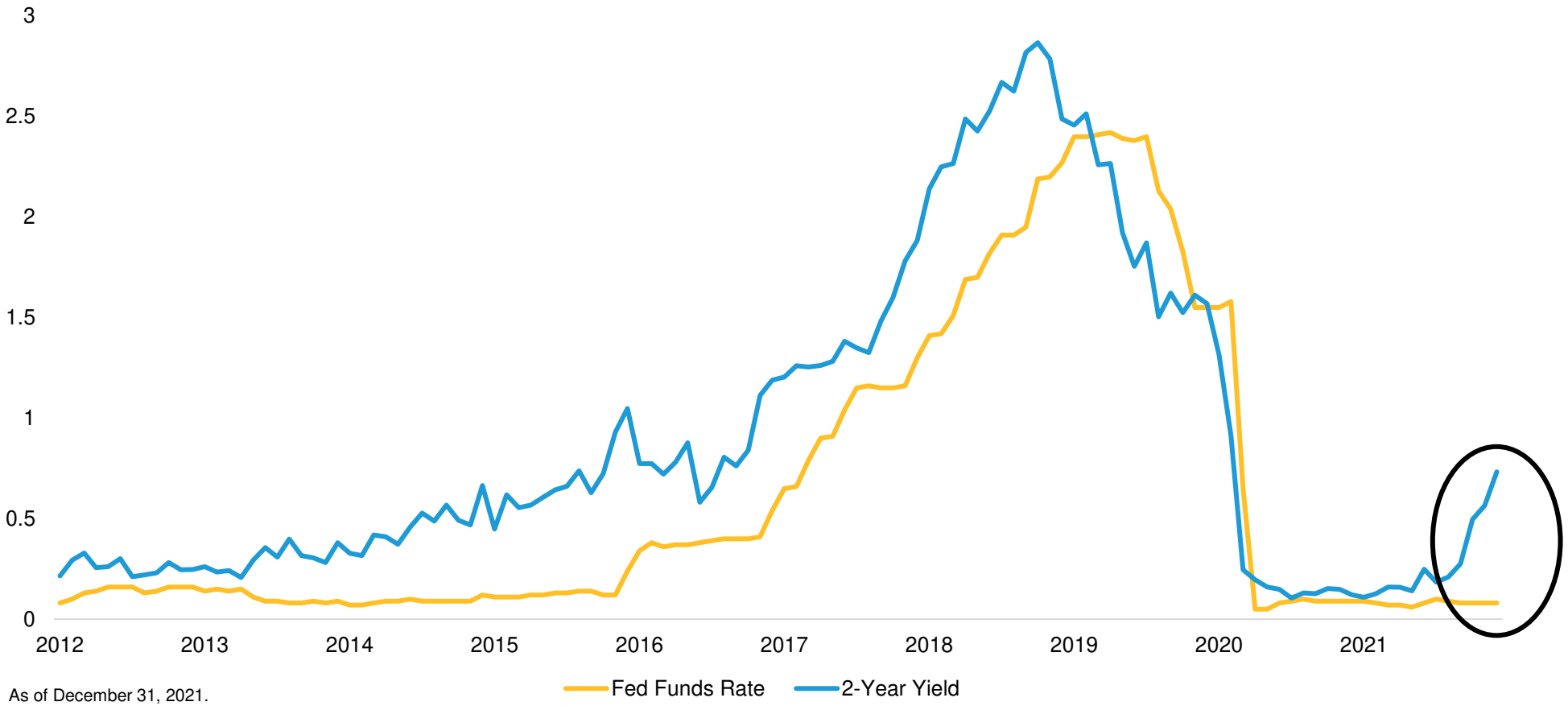


As of December 31, 2021. **Historical analysis is not necessarily indicative of future results. There is no guarantee that any estimates or forecasts will be realized.**
Note: China diverges from world trend, cutting Loan Prime Rate.
Source: AB

The Market Is Baking in Fed “Lift Off” Already

Two-year yields are the best market indicator of Fed action

US Federal Funds Effective Rate and 2-Year US Treasury Yield



As of December 31, 2021.

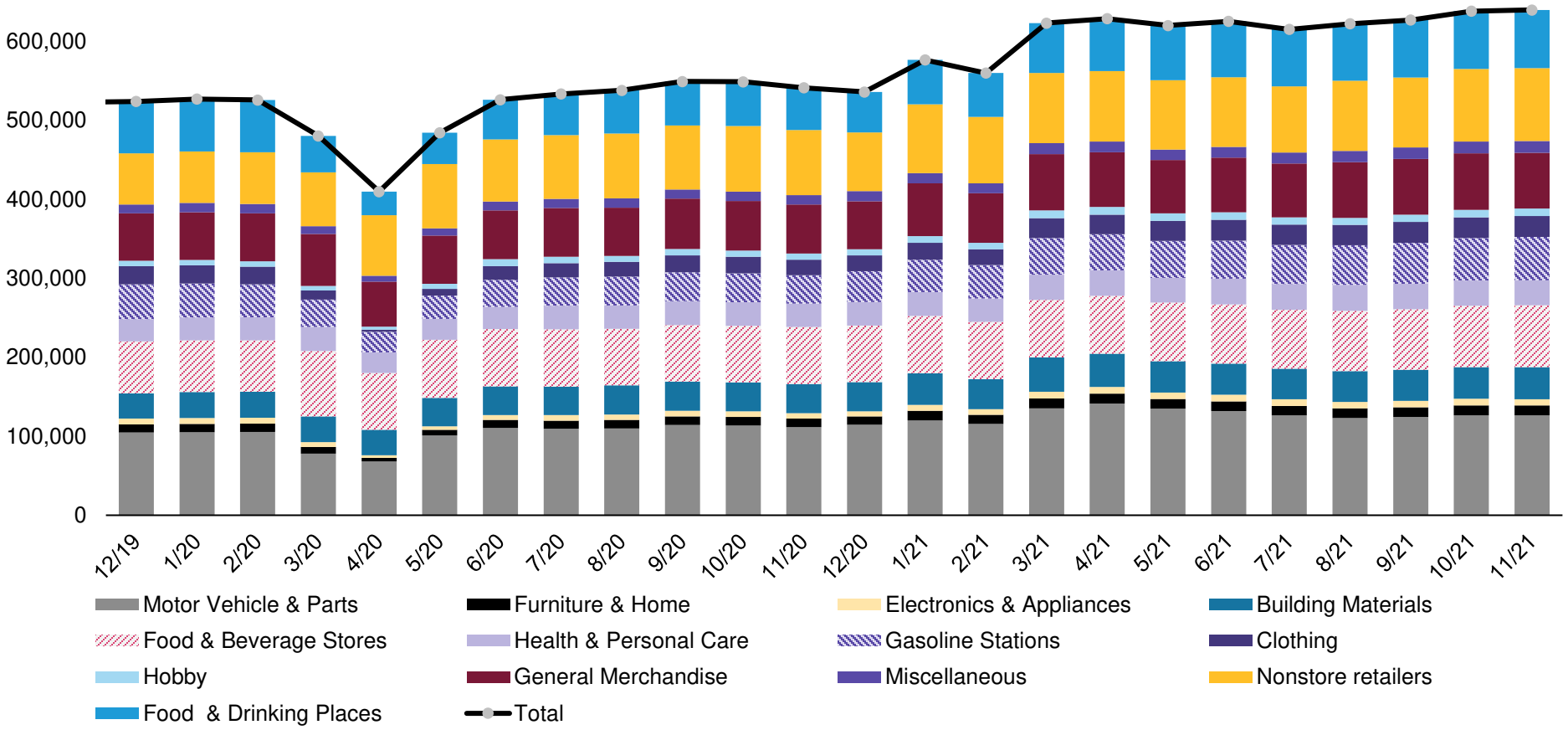
Historical analysis is not necessarily indicative of future results. There is no guarantee that any estimates or forecasts will be realized.

Source: AB, Bloomberg

Don’t Discount the American Consumer’s Willingness to Spend

Consumer spending has been buttressed by fiscal support and a reopened economy

Sales for Retail and Food Service (USD Millions)



As of November 30, 2021.

Historical analysis is not necessarily indicative of future results.

Source: Census Bureau

Ten-Year Capital Markets Projections: Asset Classes

	Median 10-Year Growth Rate	Mean Annual Return	Mean Annual Income	One-Year Volatility	10-Year Annual Equivalent Volatility
Cash Equivalents	1.3%	1.5%	1.5%	0.0%	3.7%
Short-Term Treasuries	2.0%	2.1%	2.1%	0.3%	3.0%
Short-Term Taxables	2.3%	2.5%	2.7%	0.8%	3.1%
Short-Term Diversified Municipals	1.5%	1.6%	1.5%	0.5%	2.1%
Int.-Term Treasuries	1.2%	1.3%	2.5%	3.2%	2.9%
Int.-Term Taxables	1.4%	1.6%	3.3%	3.8%	3.3%
Int.-Term Corporates	1.5%	1.7%	3.8%	4.9%	4.0%
Int.-Term Diversified Municipals	0.9%	1.0%	1.9%	3.2%	2.7%
Global Int.-Term Taxables (Hedged)	1.0%	1.1%	1.9%	3.3%	3.4%
Int.-Term TIPS	1.9%	2.4%	3.5%	2.8%	7.5%
High Yield	3.5%	4.2%	6.8%	11.7%	7.9%
Global Large-Cap (Unhedged)	5.6%	6.8%	2.0%	15.8%	15.0%
US Diversified	4.6%	6.1%	1.7%	16.5%	15.6%
US Value	5.0%	6.5%	2.0%	16.2%	15.4%
US Growth	4.1%	5.9%	1.5%	18.3%	17.1%
US Mid-Cap	5.0%	6.8%	1.4%	17.9%	17.2%
US Small/Mid-Cap	5.1%	7.0%	1.3%	18.7%	18.0%
US Small-Cap	5.2%	7.5%	1.2%	20.4%	19.9%
Developed International	6.8%	8.7%	2.6%	18.2%	17.1%
Emerging Markets	6.1%	9.2%	3.0%	23.1%	20.1%
Global REITs	5.3%	7.1%	3.5%	18.4%	17.1%
Real Assets	5.8%	6.9%	2.4%	13.3%	14.4%
Diversified Hedge Fund	4.0%	4.3%	1.5%	11.1%	15.3%
Inflation	2.8%	3.2%	n/a	1.5%	6.6%

Based on 10,000 simulated trials each consisting of 10-year periods. Reflects AllianceBernstein's estimates and the capital-market conditions of June 30, 2021. For hedge fund asset classes, "Mean Annual Income" represents income and short-term capital gains. **Data do not represent past performance and are not a promise or a range of future results.**

Notes on Bernstein Wealth Forecasting System

1. **Purpose and Description of Wealth Forecasting Analysis**

   Bernstein's Wealth Forecasting Analysis is designed to assist investors in making their long-term investment decisions as to their allocation of investments among categories of financial assets. Our 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 affect his/her long-term security; (3) The Capital-Markets Engine: our proprietary model that uses our research and historical data to create a vast range of market returns, which takes into account the linkages within and among the capital markets, as well as their unpredictability; and (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 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. The information provided here is not intended for public use or distribution beyond our private meeting.

2. **Retirement Vehicles**

   Each retirement plan is modeled as one of the following vehicles: Traditional IRA, 401(k), 403(b), Keogh, or Roth IRA/401(k). One of the significant differences among these vehicle types is the date at which mandatory distributions commence. For traditional IRA vehicles, mandatory distributions are assumed to commence during the year in which the investor reaches the age of 72. For 401(k), 403(b), and Keogh vehicles, mandatory distributions are assumed to commence at the later of: (i) the year in which the investor reaches the age of 72, or (ii) the year in which the investor retires. In the case of a married couple, these dates are based on the date of birth of the older spouse. The minimum mandatory withdrawal is estimated using the Minimum Distribution Incidental Benefit tables as published on www.irs.gov. For Roth IRA/401(k) vehicles, there are no mandatory distributions. Distributions from Roth IRA/401(k) that exceed principal will be taxed and/or penalized if the distributed assets are less than five years old and the contributor is less than 59½ years old. All Roth 401(k) plans will be rolled into a Roth IRA plan when the investor turns 59½ years old, to avoid Minimum Distribution requirements.

3. **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 is expected to be maintained reasonably close to the target allocation. 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 personal portfolio and entirely of stocks in his/her retirement portfolio. If personal assets are spent, the mix between stocks and bonds will diverge 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.

Notes on Bernstein Wealth Forecasting System

4. 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, which will have capital-gains tax implications.

5. 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
Cash Equivalents	3-month US Treasury bills	100%
Short-Term Treasuries	US Treasuries of 2-year maturity	50
Short-Term Taxables	Taxable bonds of 2-year maturity	50
Short-Term Diversified Municipals	AA-rated diversified municipal bonds of 2-year maturity	50
Int.-Term Treasuries	US Treasuries of 7-year maturity	30
Int.-Term Taxables	Taxable bonds of 7-year maturity	30
Int.-Term Corporates	US investment-grade corporate debt of 7-year maturity	30
Int.-Term Diversified Municipals	AA-rated diversified municipal bonds of 7-year maturity	30
Global Int.-Term Taxables (Hedged)	50% sovereign and 50% investment-grade corporate debt of developed countries of 7-year maturity	30
Int.-Term TIPS	US TIPS of 7-year maturity	30
High Yield	Taxable bonds of 7-year maturity with credit characteristics of CSFB High Yield Index II	30
Global Large-Cap (Unhedged)	MSCI World Index (NDR) Index	15
US Diversified	S&P 500 Index	15
US Value	S&P/Barra Value Index	15
US Growth	S&P/Barra Growth Index	15
US Mid-Cap	Russell Mid-Cap Index	15
US Small-/Mid-Cap	Russell 2500 Index	15
US Small-Cap	Russell 2000 Index	15
Developed International	MSCI EAFE Index (Unhedged)	15
Emerging Markets	MSCI Emerging Market Index	20
Global REITs	NAREIT Index	30
Real Assets	1/3 NAREIT, 1/3 MSCI ACWI Commodity Producer Index, 1/3 DJ-UBS Commodity Futures Index	30
Diversified Hedge Fund	Diversified Hedge Fund Asset Class	33

Notes on Bernstein Wealth Forecasting System

6. 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-Market Projections page before 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 28.8%. 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.

7. 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. These simulations are based on inputs that summarize the current condition of the capital markets as of the date in the footnotes of that page. A description of these technical assumptions is available on request.

8. 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.

9. Tax Rates

Bernstein's Wealth Forecasting System has used various assumptions for the income tax rates of investors in the case studies. See the assumptions in each case study (including footnotes) for details. The federal income tax rate is Bernstein's estimate of either the top marginal tax bracket or an "average" rate calculated based upon the marginal rate schedule. For 2014 and beyond, the maximum federal tax rate on investment income is 43.4% and the maximum federal long-term capital-gains tax rate is 23.8%. 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 represents Bernstein's estimate of the top marginal rate, if applicable.

10. Core Capital Analysis

The term "core capital" means the amount of money necessary to cover anticipated lifetime net spending. All noncore capital assets are termed "surplus capital." Bernstein estimates core capital by inputting information supplied by the client, including expected future income and spending, into our Wealth Forecasting System, which simulates a vast range of potential market returns over the client's anticipated life span. From these simulations, we develop an estimate of the core capital the client will require to maintain his/her spending level over time. Variations in actual income, spending, applicable tax rates, life span, and market returns may substantially affect the likelihood that a core capital estimate will be sufficient to provide for future expenses. Accordingly, the estimate should not be construed as a promise of actual future results, the actual range of results, or the actual probability that the results will be realized.

Notes on Bernstein Wealth Forecasting System

11. Intentionally Defective Grantor Trusts (IDGTs)

The Intentionally Defective Grantor Trust (IDGT) is modeled as an irrevocable trust whose assets are treated as the grantor's for income tax purposes, but not for gift or estate tax purposes. Some income and transfer-tax consequences associated with transfers to and the operation of an IDGT remain uncertain, and the strategy may be subject to challenge by the IRS. Hence, this technique requires substantial guidance from tax and legal advisors. The grantor may give assets to the trust, which will require using gift tax exemptions or exclusions, or paying gift taxes. The IDGTis modeled with one or more current beneficiaries, and one or more remainder beneficiaries. Distributions to the current beneficiaries are not required, but the system permits the user to structure annual distributions in a number of different ways, including 1) an amount or a percentage of fiduciary accounting income (FAI) (which may be defined to include some or all realized capital gains); 2) FAI plus some principal, expressed either as a percentage of trust assets or as adollar amount; 2) An annuity, or fixed dollar amount, which may be increased annually by inflation, or by a fixed percentage; 4) A unitrust, or annual payment of a percentage of trust assets, based on the trust's value at the beginning of the year, or average over multiple years; or 5) any combination of the above four payout methods. Because the IDGT is modeled as a grantor trust, the system calculates all taxes on income and realized capital gains that occur in the IDGT portfolio each year, based on the grantor's tax rates and other income, and pays them from the grantor's personal portfolio. The IDGT may continue for the duration of the analysis, or the trust assets may be distributed in cash or in kind at a specific point in time or periodically to (1) a non-modeled recipient, (2) a taxable trust, or (3) a taxable portfolio for someone other than the grantor. If applicable, an installment sale to an IDGT may be modeled as a user-entered initial 'seed' gift followed by a sale of additional assets to the trust. The system will use one of two methods to repay the value of the sale assets plus interest (less any user-specified discount to the grantor): 1) user-defined payback schedule, or 2) annual interest-only payments at the applicable federal rate (AFR) appropriate for the month of sale and the termof the installment note, with a balloon payment of principal plus any unpaid interest at the end of the specified term.

Disclosures and Important Information

The information contained here reflects the views of AllianceBernstein L.P. or its affiliates and sources it believes are reliable as of the date of this publication. AllianceBernstein L.P. makes no representations or warranties concerning the accuracy of any data. There is no guarantee that any projection, forecast or opinion in this material will be realized. Past performance does not guarantee future results. The views expressed here may change at any time after the date of this publication. This document is for informational purposes only and does not constitute investment advice. AllianceBernstein L.P. does not provide tax, legal or accounting advice. It does not take an investor's personal investment objectives or financial situation into account; investors should discuss their individual circumstances with appropriate professionals before making any decisions. This information should not be construed as sales or marketing material or an offer of solicitation for the purchase or sale of, any financial instrument, product or service sponsored by AllianceBernstein or its affiliates.