



**BERNSTEIN**

June 10, 2020

# It's a Wonderful Deal!

Selling a Business with Confidence

**Bob Hart**—Financial Advisor

**Andrew Bishop, CFA, CEPA**—Director

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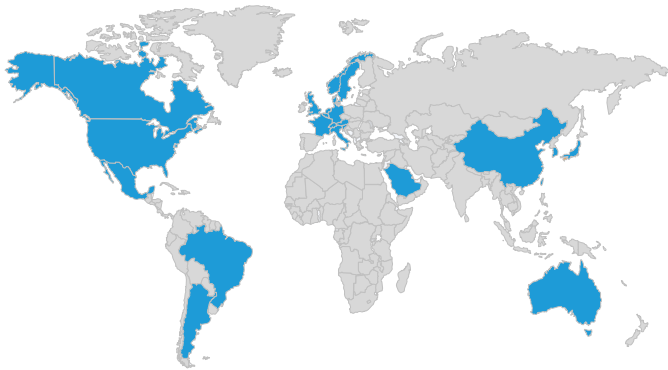
About



**\$623 Billion**

Assets under management

**Offices in 51 cities in 25 countries**



**\$0.00**

Long-term debt on Bernstein's  
balance sheet

As of December 31, 2019.  
Source: AB



Average years of experience per portfolio manager

**13** at Bernstein

**23** in the industry

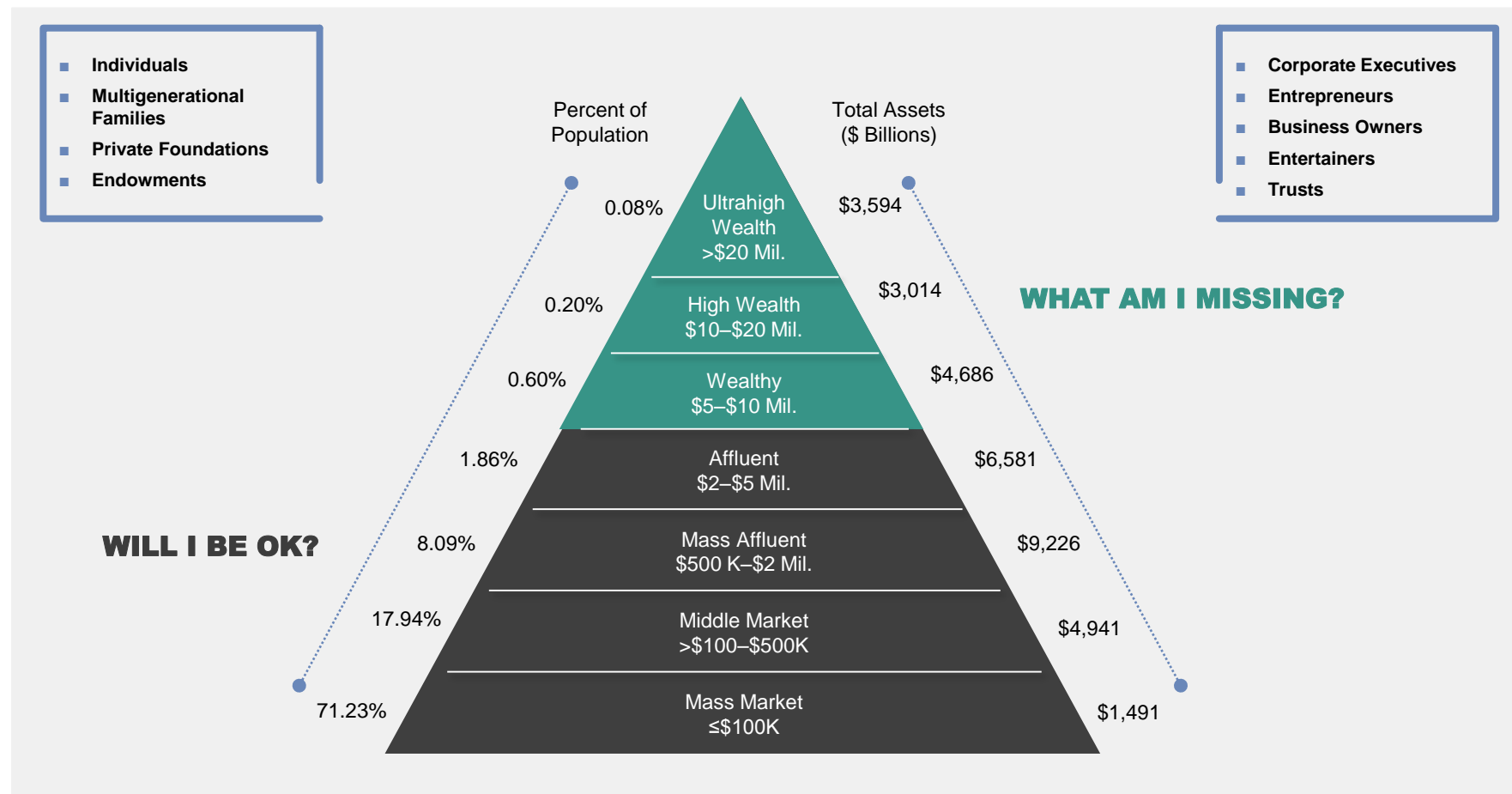
**50+**

Years helping clients reach their financial goals



Revenue from investment  
research and management

# We Serve Clients with the Benefit of Significant Wealth and the Burden of the Complexity It Brings



Source: Cerulli Associates, Federal Reserve, and US Census Bureau

# The M&A Team of Professionals

<b>CPAs</b>	<b>Transactional Attorneys</b>	<b>Investment Bankers</b>
<b>Corporate Attorneys</b>	<b>Financial Advisor</b>	<b>Trust and Estate Attorneys</b>
<b>Nonbank Lenders</b>	<b>Business Owner</b>	<b>Business Brokers</b>
<b>Private Equity Firms</b>	<b>Tax Attorneys</b>	<b>Commercial Banks</b>
<b>Valuation Consultants</b>	<b>C-Level Staffing</b>	<b>Venture Capitalists</b>

# A Case Study: John and Julie Garcia

## A 60-Year-Old Couple Wants to Retire and Sell Their Business

- **Manufacturing company**
- **Last year's EBITDA was \$5 million**
- **\$1 million in retirement accounts**
- **Primary Goals**
  - Maintain comfortable lifestyle, spending \$300,000, and not worry about running out of money
  - Purchase \$3 million second home in Vail, Colorado
  - Protect wealth created by business sale
- **Secondary Goals**
  - Gift money to children and grandchildren
  - Make substantial donations to charities they care about
  - Invest in a promising new venture
  - Minimize estate tax exposure

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Will a Sale Allow Them to Meet Their Goals?

# Two Offers Were Received

- All cash offer of \$30 million from a local competitor
- Leveraged recapitalization from a private equity buyer
  - \$24 million cash up-front
  - Roll 20% of proceeds (valued at \$6 million) into a newly formed company
  - John to continue as CEO, earning \$300,000 yearly for next five years

Bernstein does not provide tax, legal, M&A, or accounting services. Please consult professionals in those fields.

# Key Questions

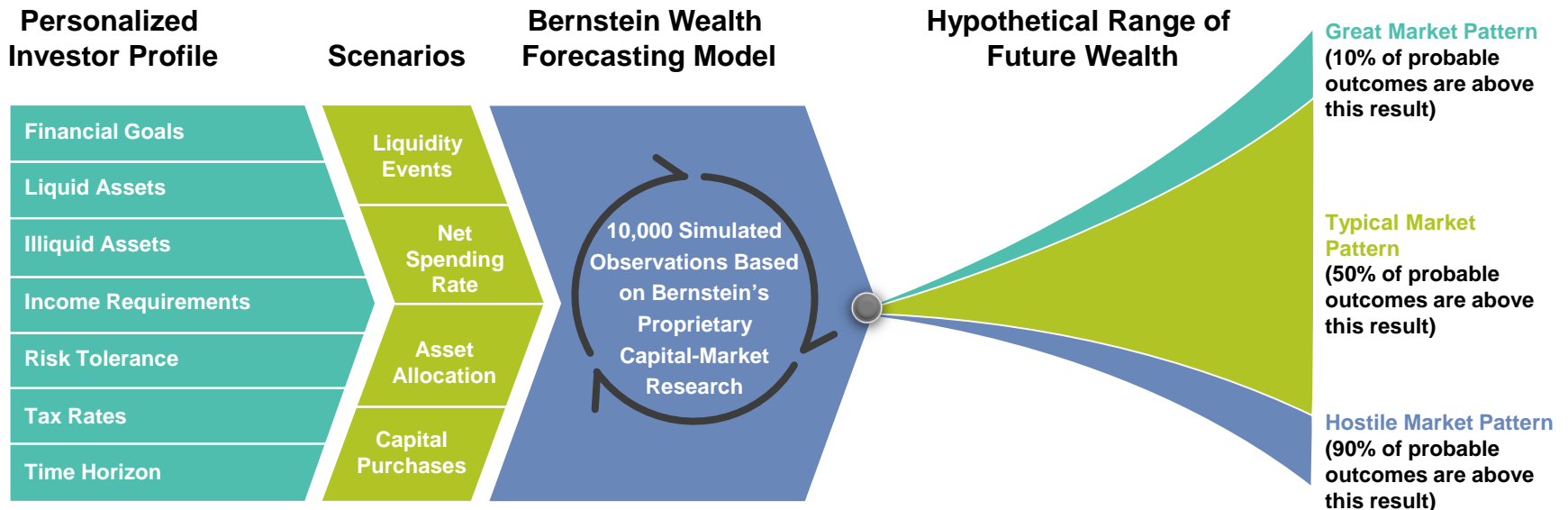
- Which deal should they choose?
- Can they sustain \$300,000 of spending and purchase the \$3 million home in Vail, Colorado?
- How much can they give to charity and their children?
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# Bernstein's Wealth Forecasting System<sup>SM</sup> Is Uniquely Able to Help



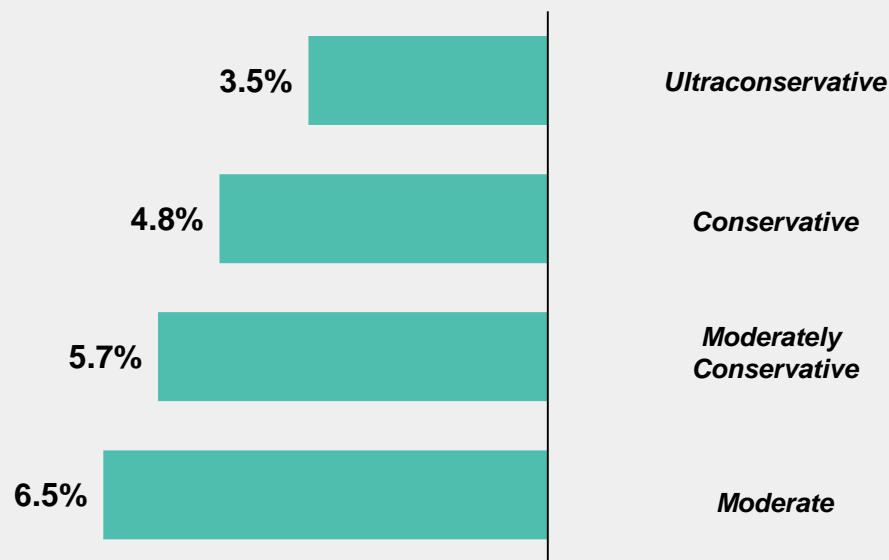
- Based on the current capital-market environment
- Incorporates various account types and planning vehicles
- Predicts likelihood of meeting long-term goals

The Wealth Forecasting System<sup>SM</sup> is based upon our proprietary analysis of historical capital-market data over many decades. We looked 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 in the Appendix for further details.

Source: AB

# What Returns & Risk Might Be Expected from the Market?

## Range of Compound Growth Rates\* For Next 30 Years



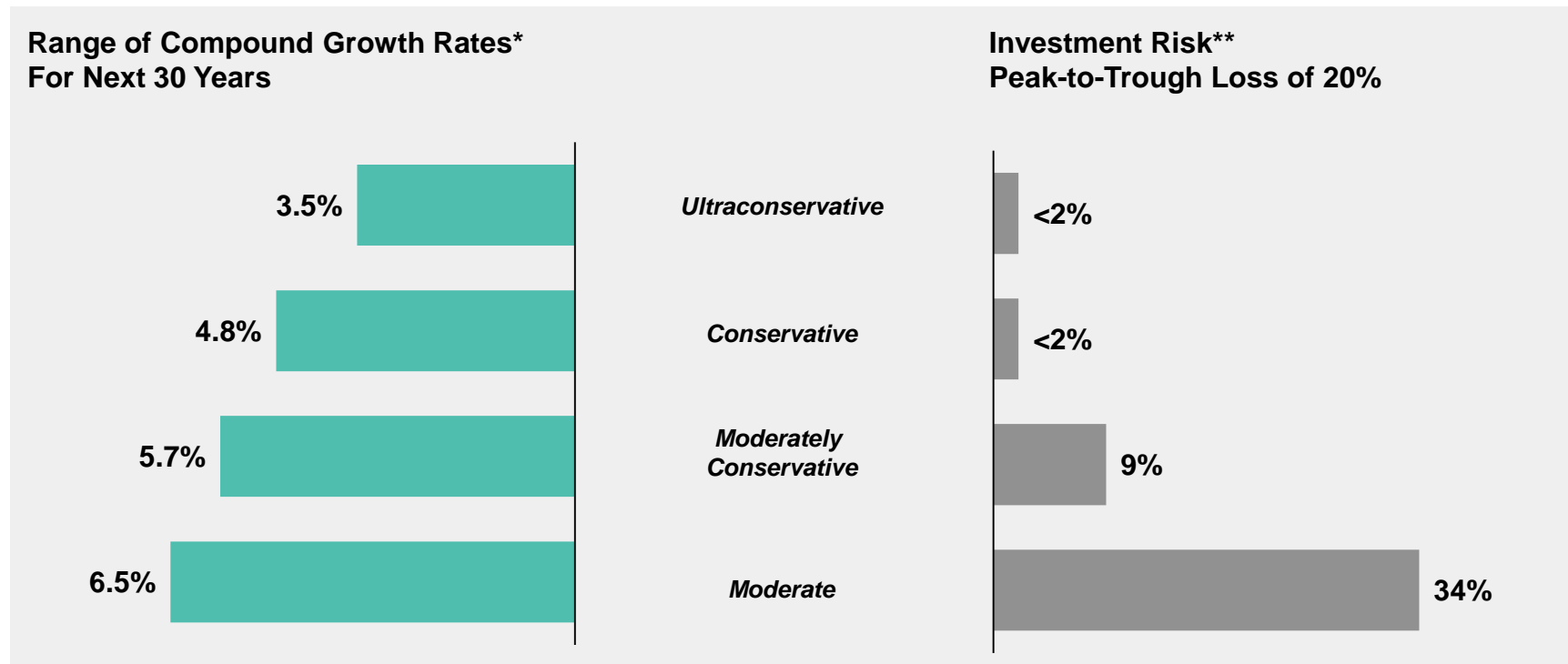
**For illustrative purposes only. There can be no assurance that any investment objectives will be achieved.**

\*Ultraconservative allocation modeled as 50% cash and 50% intermediate-term bonds; conservative allocation modeled as 19% global stocks, 5% alternatives, and 76% intermediate-term bonds; moderately conservative allocation modeled as 35% global stocks, 1% real assets, 9% alternatives, and 55% intermediate-term bonds; moderate allocation modeled as 50% global stocks, 3% real assets, 12% alternatives, and 35% intermediate-term bonds.

\*\*Projections indicate the probability of a peak-to-trough decline in pretax, pre-cash-flow cumulative returns of 20% over the next 30 years. Because the Wealth Forecasting System uses annual capital-market returns, the probability of peak-to-trough losses measured on a more frequent basis (such as daily or monthly) may be understated. The probabilities depicted above include an upward adjustment intended to account for the incidence of peak-to-trough losses that do not last an exact number of years.

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 Wealth Forecasting System at the end of this report for further details.

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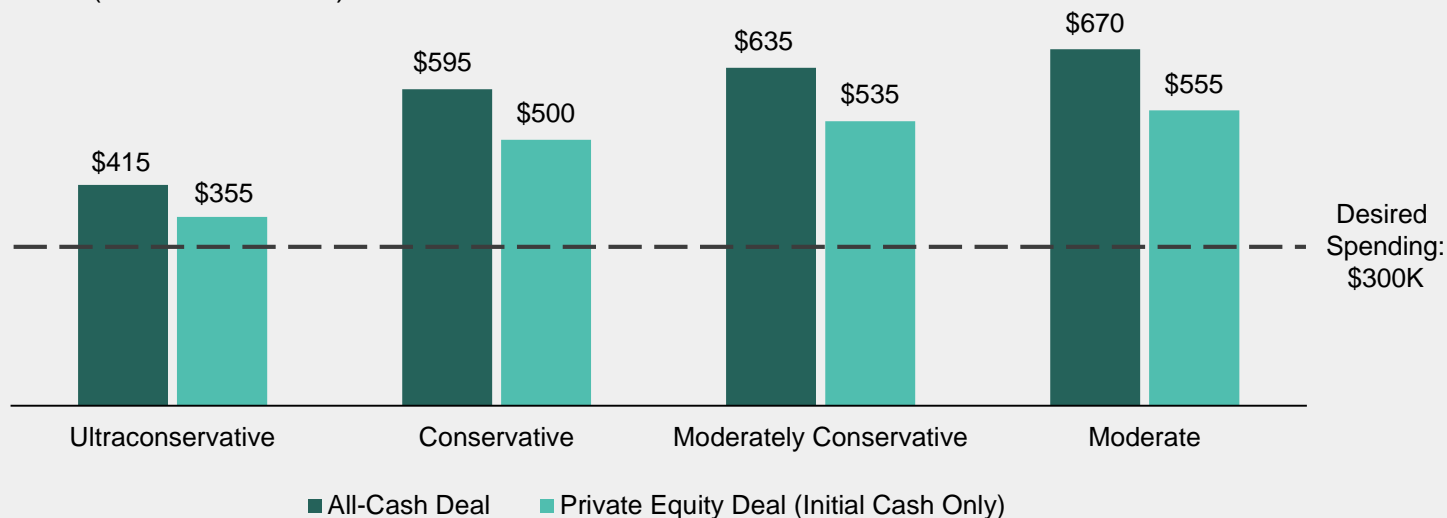
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# How Much Annual Spending Can a Portfolio Support?

## Sustainable Annual Inflation-Adjusted Spending\*

90% Confidence Level (USD Thousands)



Probability of Peak-to-Trough Loss of 20%

<2%

<2%

9%

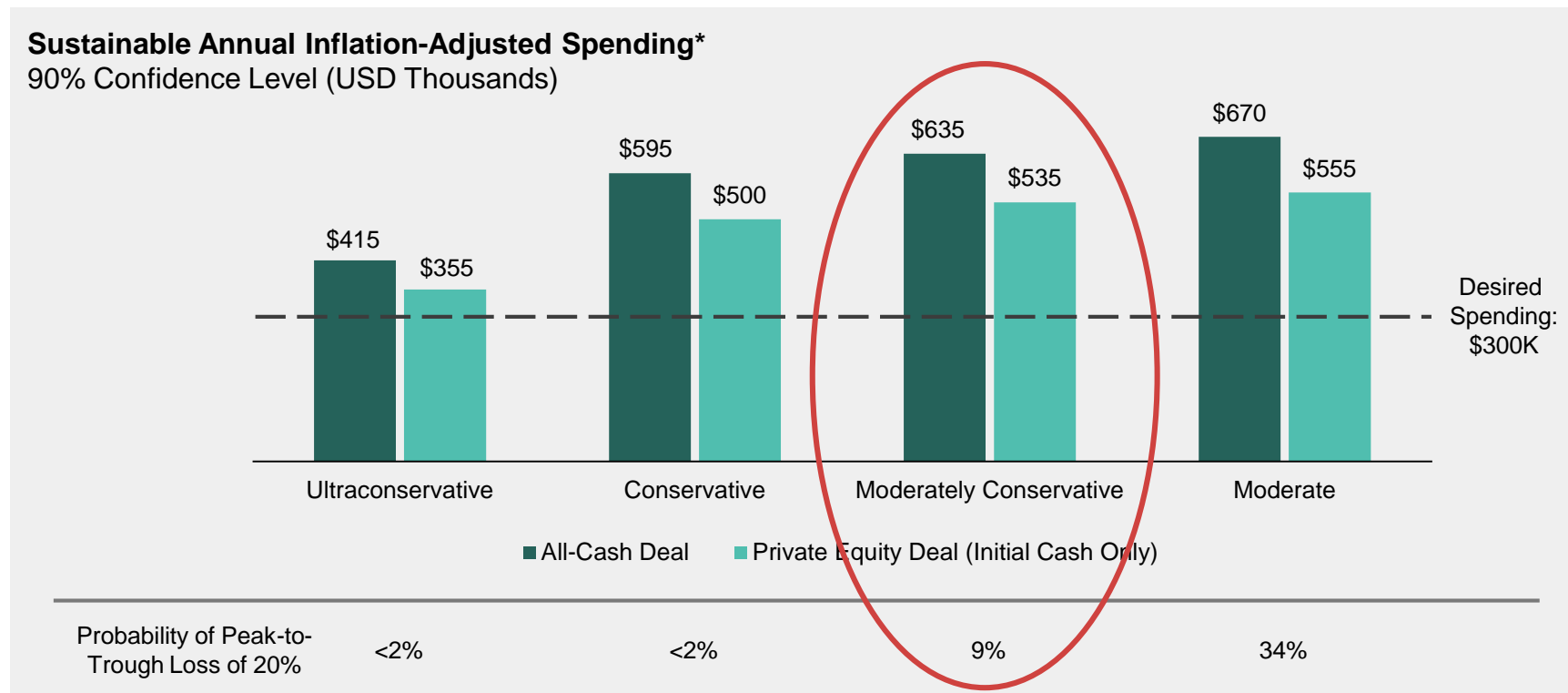
34%

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Results based on Bernstein's estimates of the range of returns for the applicable capital markets over the couple's mortality-adjusted joint lifetime. **Data do not represent past performance and are not a promise of actual future results or a range of future results.** 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.

See Notes on Wealth Forecasting System in the Appendix for further details.

# How Much Annual Spending Can a Portfolio Support?



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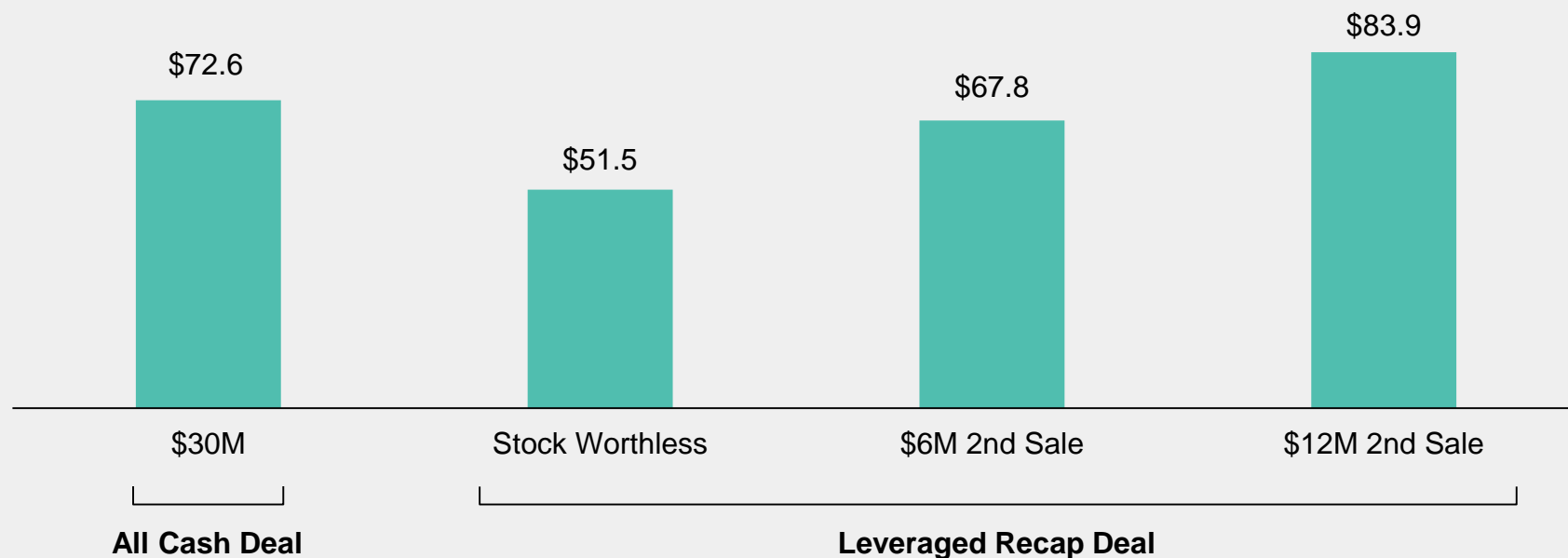
# What Will the Liquid Estate Look Like 30 Years from Now?

## Median Wealth Values (Nominal, USD Millions)—Year 30\*

After Taxes and Cash Flows

\$300,000 Spending, \$3 Million Vacation Home Purchase

**Moderately Conservative**



\*All results based on AB's estimates of the range of returns for the applicable capital markets over the next 30 years. **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 Appendix and Notes on the Wealth Forecasting System for further details.

# They Chose the Private Equity Deal

## The Garcias chose the private equity deal because it

- Provided them more upside
- Provide greater security for their employees
- Allowed them to continue working for a few more years while setting their transition in motion

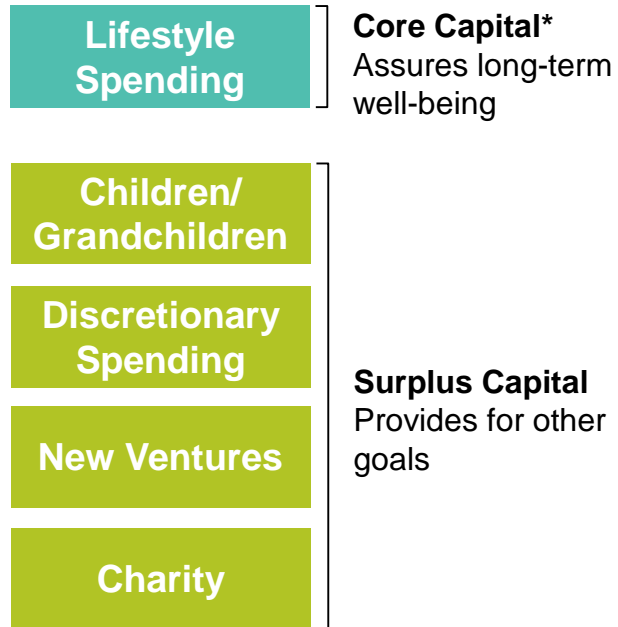


# Key Questions

- Which deal should they choose?
- Can they sustain \$300,000 of spending and purchase the \$3 million home in Vail, Colorado?
- **How much can they give to charity and their children?**
- How should they give to charity?
- How do they transfer wealth to children and grandchildren?

# Core and Surplus Capital

## Hierarchy of Objectives



## The Critical Goal: Meeting Lifetime Spending Needs



\*The amount needed to support your lifestyle as long as you live.  
Source: AB

# How Much Can They Give Away to Family and Charity?

Core Capital and Surplus Capital\*

\$300,000 Spending and \$3 Million Vacation Home Purchase

## Private Equity Deal†

(USD Millions)

Initial  
Cash Only\*\*

\$8.4

**Surplus Capital**—For additional spending, gifts to charity, or family

\$11.8

**Core Capital**—To support spending of \$300,000 and the purchase of a \$3 million vacation home

Core and Surplus Capital

\*Core capital and surplus capital were solved at a 90% confidence level assuming \$300,000 of inflation-adjusted spending and the purchase of a \$3 million vacation home with a moderately conservative allocation of 35% global stocks, 1% real assets, 9% alternatives, and 55% intermediate-term bonds.

\*\*Initial assets of \$20.2 million represent the current assets of \$1 million plus the after-tax proceeds from the initial sale of \$19.2 million.

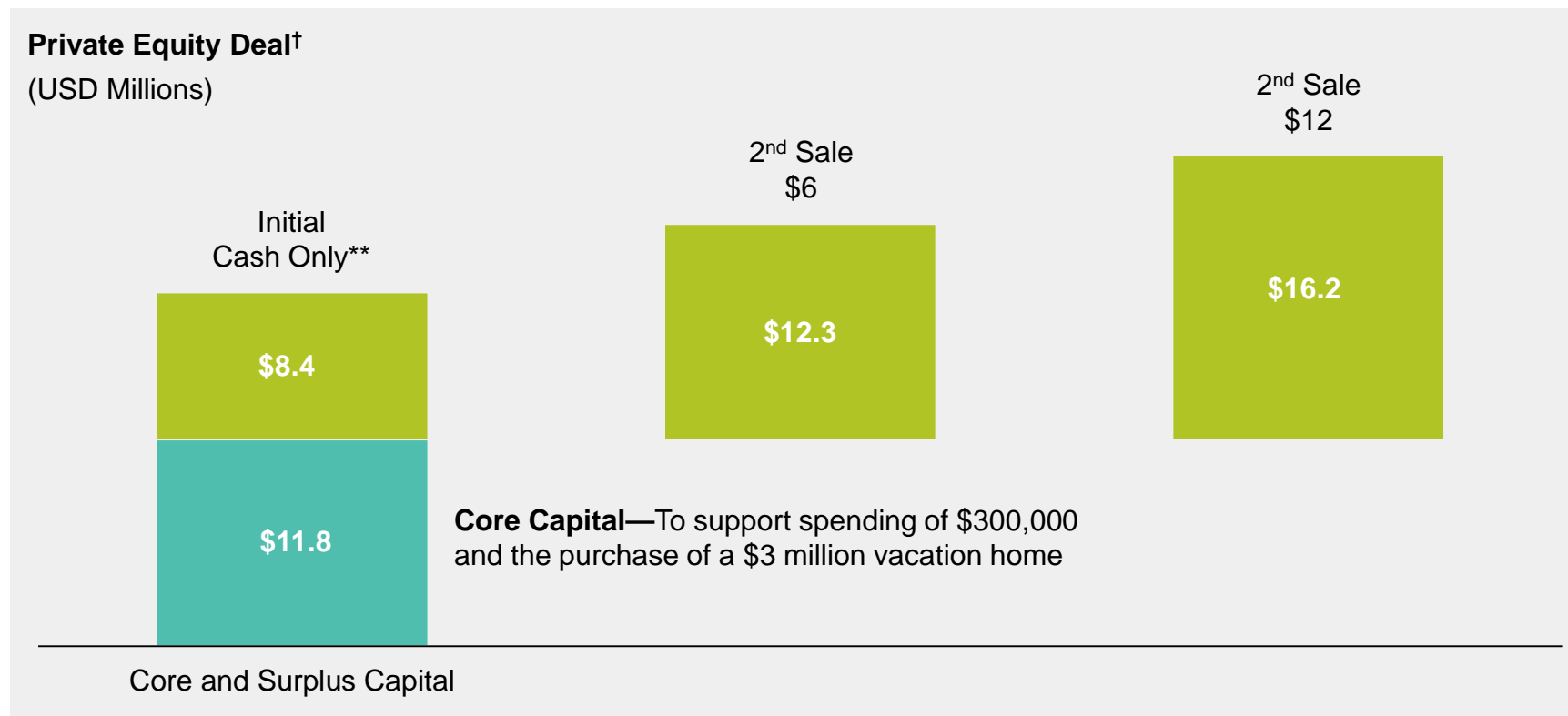
†Private equity deal assumes \$24 million initial cash, pretax, with \$300,000 per year consulting income for five years and combined Social Security benefits of \$42,000 per year in today's dollars, beginning at age 67.

Based on Bernstein's estimates of the range of returns for the applicable capital markets over a joint life expectancy. **Data do not represent past performance and are not a promise of actual future results or a range of future results.** See Notes on Wealth Forecasting System in the Appendix for further details.

# With a 2nd Sale in 5 Years, Surplus Capital Could Further Increase

Core Capital and Surplus Capital\*

\$300,000 Spending and \$3 Million Vacation Home Purchase



\*Core capital and surplus capital were solved at a 90% confidence level assuming \$300,000 of inflation-adjusted spending and the purchase of a \$3 million vacation home with a moderately conservative allocation of 35% global stocks, 1% real assets, 9% alternatives, and 55% intermediate-term bonds.

\*\*Initial assets of \$20.2 million represent the current assets of \$1 million plus the after-tax proceeds from the initial sale of \$19.2 million.

†Private equity deal assumes \$24 million initial cash, pretax, with \$300,000 per year consulting income for five years and combined Social Security benefits of \$42,000 per year in today's dollars, beginning at age 67.

The second sale is assumed to happen in five years for either \$6 million or \$12 million pre-tax.

Based on Bernstein's estimates of the range of returns for the applicable capital markets over a joint life expectancy. **Data do not represent past performance and are not a promise of actual future results or a range of future results.** See Notes on Wealth Forecasting System in the Appendix for further details.

# Estimated Spending Rates and Core Capital Amounts

## Sustainable Spending Rate\*

Allocation	0/100	20/80	40/60	60/40	80/20	100/0
Age 55	1.4%	2.0%	2.4%	2.7%	2.9%	2.9%
Age 65	1.9	2.6	2.9	3.3	3.4	3.4
Age 75	2.9	3.4	3.8	4.2	4.5	4.3

## Estimated Core Capital—Spending \$100,000 (\$Millions)

Allocation	0/100	20/80	40/60	60/40	80/20	100/0
Age 55	\$7.0	\$5.1	\$4.1	\$3.7	\$3.5	\$3.5
Age 65	5.3	3.9	3.4	3.0	2.9	2.9
Age 75	3.5	2.9	2.6	2.4	2.2	2.3

\*These spending rates are for couples and assume an allocation of globally diversified stocks. Asset allocations assume globally diversified stocks. Globally diversified stocks are represented by the following allocation for a 100% return-seeking allocation: 16.2% U.S. value, 16.2% U.S. growth, 12.0% U.S. diversified, 6.0% U.S. small-mid cap, 23.7% developed foreign markets, 7.3% emerging markets, 9.6% US Low Vol Equity, 9.0% high-risk international. Equity geography weights may shift in proportion to total return-seeking allocation. Bonds are represented by diversified intermediate-term municipal bonds in the proportions noted. Additional detail regarding allocation available upon request. Spending is a percentage of initial value of portfolio and is grown with inflation; spending rates assume maintaining spending with a 90% level of confidence. Based on Bernstein estimates of the range of returns for the applicable capital markets over the periods analyzed as of March 31, 2020. Data do not represent past performance and are not a promise of actual future results. See Notes on Wealth Forecasting at the end of this presentation for further details. All information on longevity and mortality-adjusted investment analyses in this study are based on mortality tables compiled in 2000. To reflect that high net worth individuals live longer than average, we subtract three years from each individual's age (e.g. a 55 year-old would be modeled as a 52 year-old). In our mortality adjusted analyses, the lifespan of an individual varies in each of our 10,000 trials in accordance with mortality tables.

Source: Society of Actuaries RP-2000 mortality tables and AllianceBernstein

# Key Questions

- Which deal should they choose?
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# There Are Many Ways to Give to Charity

## PURELY PHILANTHROPIC STRATEGIES



- Charitable IRA Rollover
- Securities
- Cash

### ● Immediate Gifts

- Private Nonoperating Foundations
- Private Operating Foundations
- Donor-Advised Funds

### ● Staged Gifts

- Pledges
- Bequests

### ● Deferred Gifts

- Charitable Lead Annuity Trusts

- Charitable Gift Annuities
- Charitable Remainder Trusts
- Pooled Income Funds

## PARTLY PHILANTHROPIC STRATEGIES



# There Are Many Ways to Give to Charity

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- Cash

### ● Immediate Gifts

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- Private Operating Foundations
- Donor-Advised Funds

### ● Staged Gifts

- Charitable Lead Annuity Trusts

How should the Garcias fund their DAF?

- Pledges
- Bequests

### ● Deferred Gifts

- Charitable Gift Annuities
- Charitable Remainder Trusts
- Pooled Income Funds

## PARTLY PHILANTHROPIC STRATEGIES

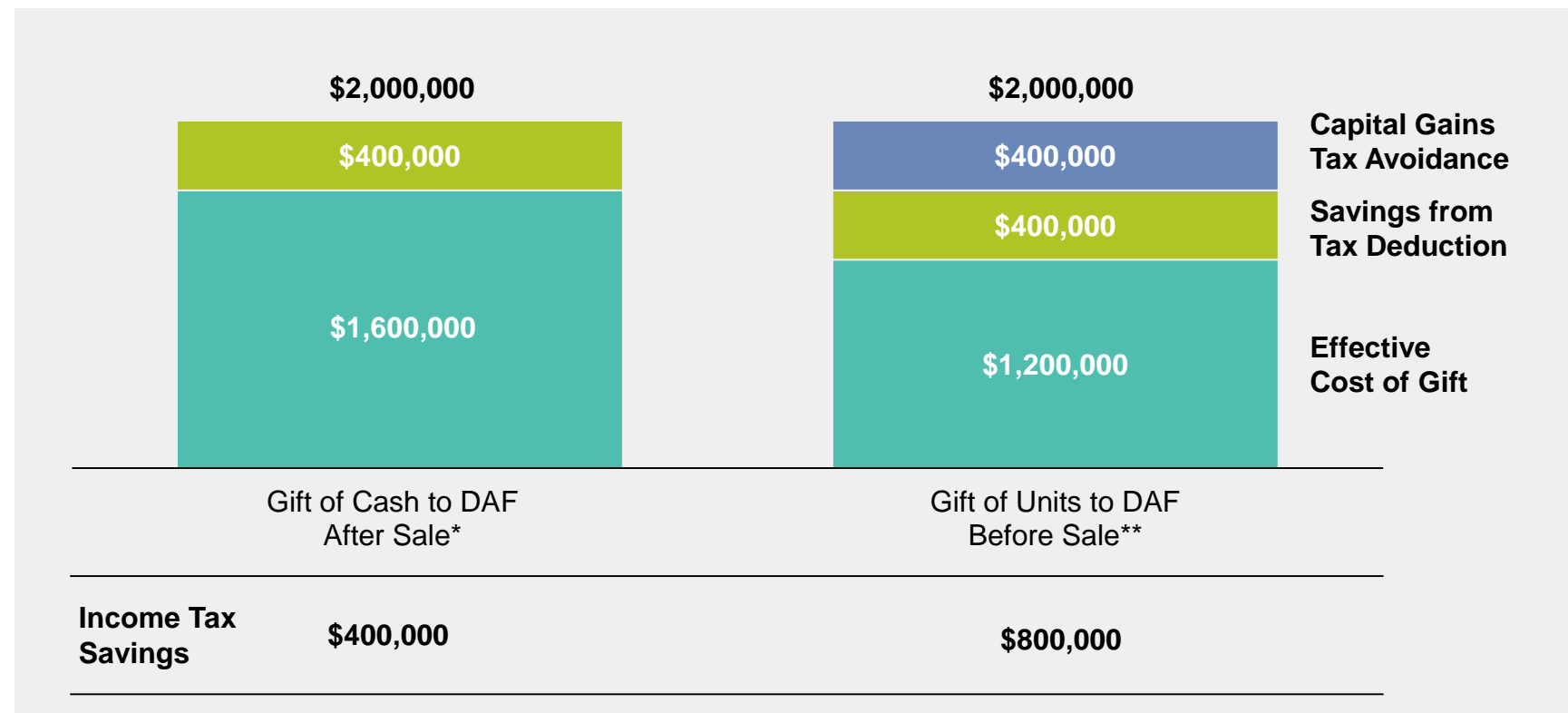




# Pre-Transaction Planning Results in a Meaningful Benefit

## \$2 Million Gift to Donor-Advised Fund (DAF)

### Cash After the Sale or with Units Before the Sale



\*\$2.0 million gift to donor advised fund (DAF) is assumed to be made with cash after the sale. The tax deduction assumes the donor is able to fully utilize the deduction in the year the gift is made which will be used to offset capital gain income. The effective cost of the gift is after accounting for the tax savings from the deduction.

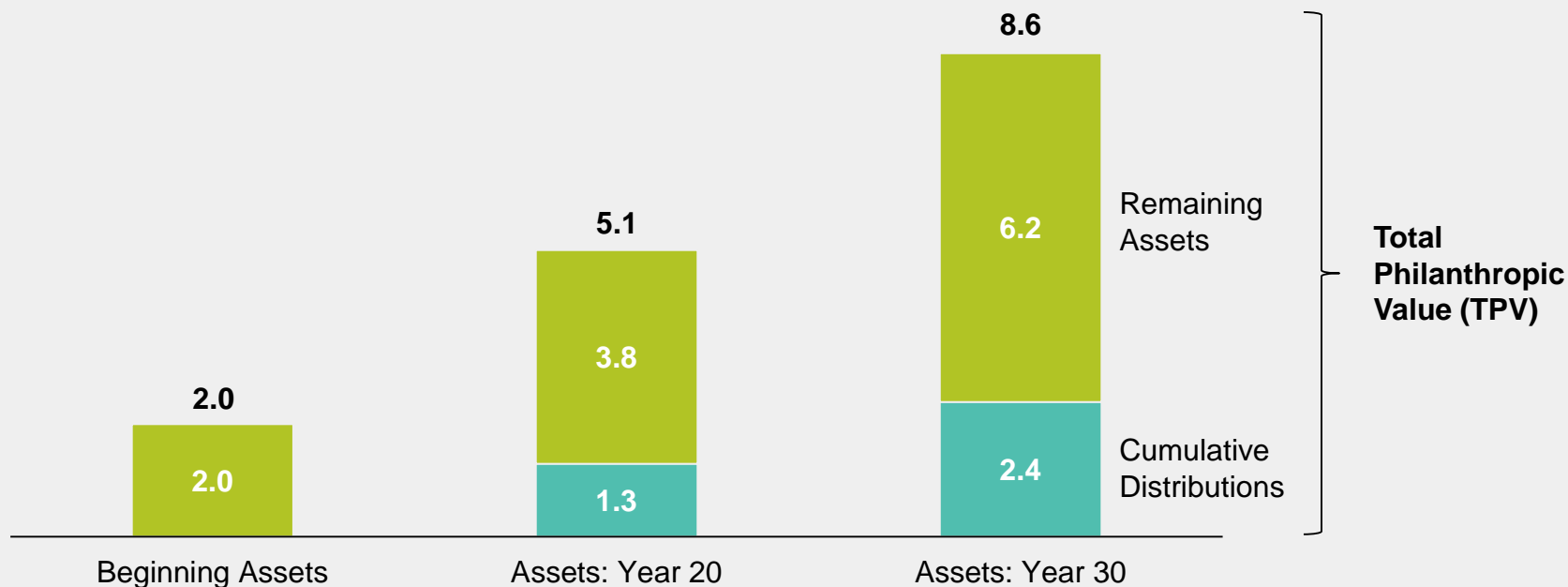
\*\*\$2.0 million gift is assumed to be made with units before the sale is completed. When the gift is made, the results assume the donor will receive a tax deduction which would offset capital gain income. The units owned by the DAF are not subject to capital gains taxation at the sale.

The pre-transaction charitable deduction is based on the fair market value of the units on the contribution date, as determined by a qualified independent appraisal. (§170(e)(1) and Treas. Reg. §1.170A-1(c)(1)). The appraisal value may be subject to valuation discounts, reducing the value of the deduction. Additionally, the DAF may earn income that is taxable to the charity as unrelated business taxable income. Furthermore, the IRS may deem the capital gains tax unavoidable to the donor depending upon the timing of the pre-transaction contribution. A post-transaction contribution of cash or appreciated marketable securities avoids these potential issues.

**Bernstein does not provide tax advice; investors should seek advice from their accountant before making any tax-related decisions.**

# How Much Is a \$2 Million Gift to a Donor-Advised Fund Worth?

Value of Fund Distributing \$50,000 Annually, Adjusted with Inflation  
Median Results—Nominal (USD Millions)



TPV is the sum of cumulative distributions and the portfolio remainder value in a given year. Allocation is 50% stocks / 3% real assets / 12% alternatives / 35% bonds. Stocks are modeled as 60% US diversified, 33% developed international, and 7% emerging market. Bonds are modeled as intermediate-term taxable bonds.

Based on Bernstein's estimates of the range of returns for the applicable capital markets as of December 31, 2017. **Data do not represent past performance and are not a promise of actual future results or a range of future results.** See Notes on Wealth Forecasting System in the Appendix.

Source: Bernstein

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# Wealth Transfer Toolbox

## Desired Beneficiaries

- Children
- Grandchildren
- Other Family
- Charitable Causes

## Gifting Techniques

- Basic Gifts
- Spousal Lifetime Access Trust
- GRATs
- Installment Sale
- QPRT
- Foundation
- Donor Advised Fund
- Charitable Lead Trust
- Charitable Remainder Trust

## Leveraging Opportunities

- Grantor Trusts
- Discounted Assets
- Early Use of Exemptions
- Insurance

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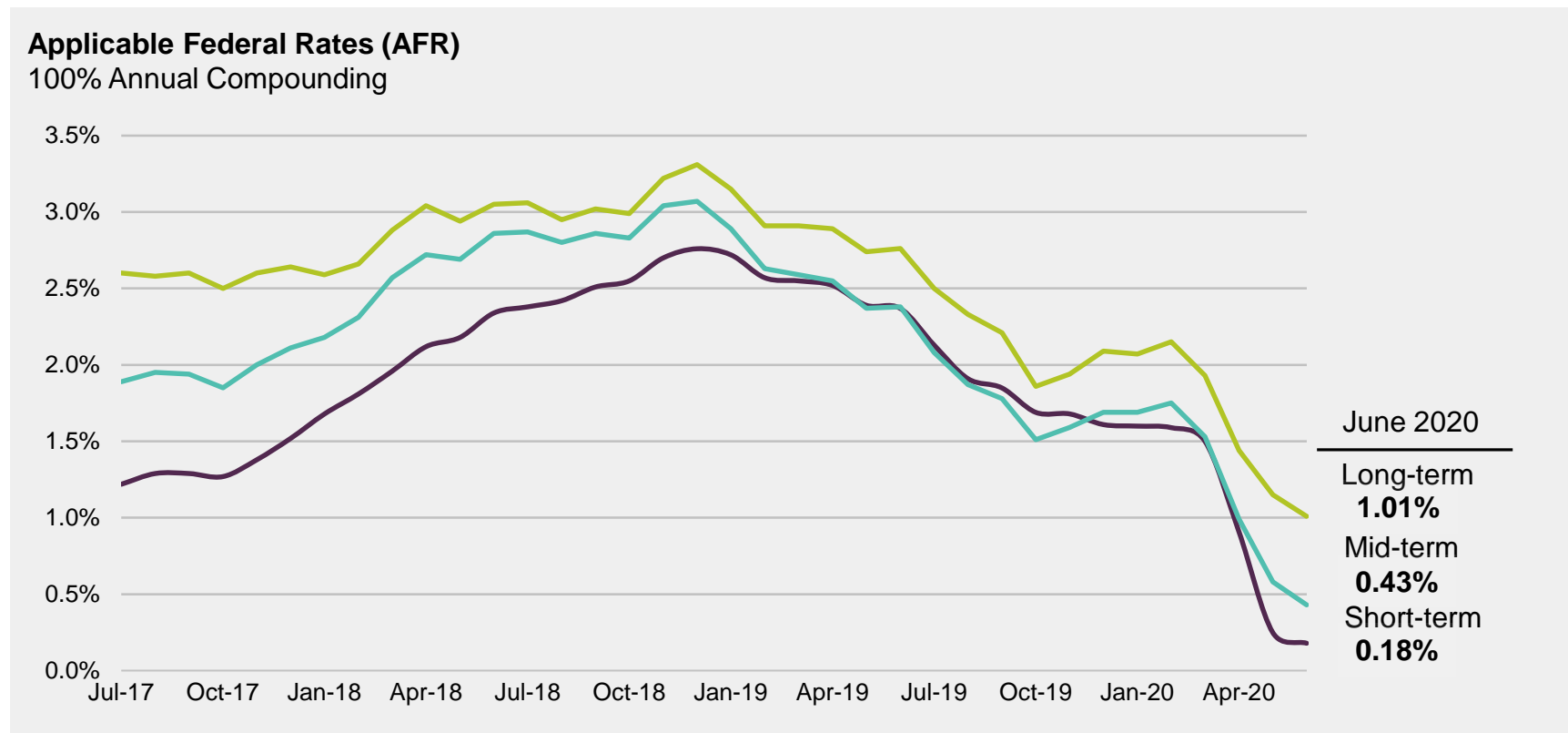
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## Leveraging Opportunities

- Grantor Trusts
- Discounted Assets
- Early Use of Exemptions
- Insurance

# Potential Strategy: Lock in Today's Still-Low Interest Rates... But Retain the Option to Complete the Gift Later



Source: [www.irs.gov](http://www.irs.gov)

# How to Best Transfer Wealth to Children and Grandchildren?

The Garcias wanted to provide their children with a financial head start, but did not want to give them too much too soon. Their attorney recommended two strategies:

- Annual exclusion gifts of \$15,000 per person (\$30,000 per couple) to both children and four grandchildren (\$180,000 total per year)
- Sell 50% of their retained equity interest to an Intentionally Defective Grantor Trust (IDGT)

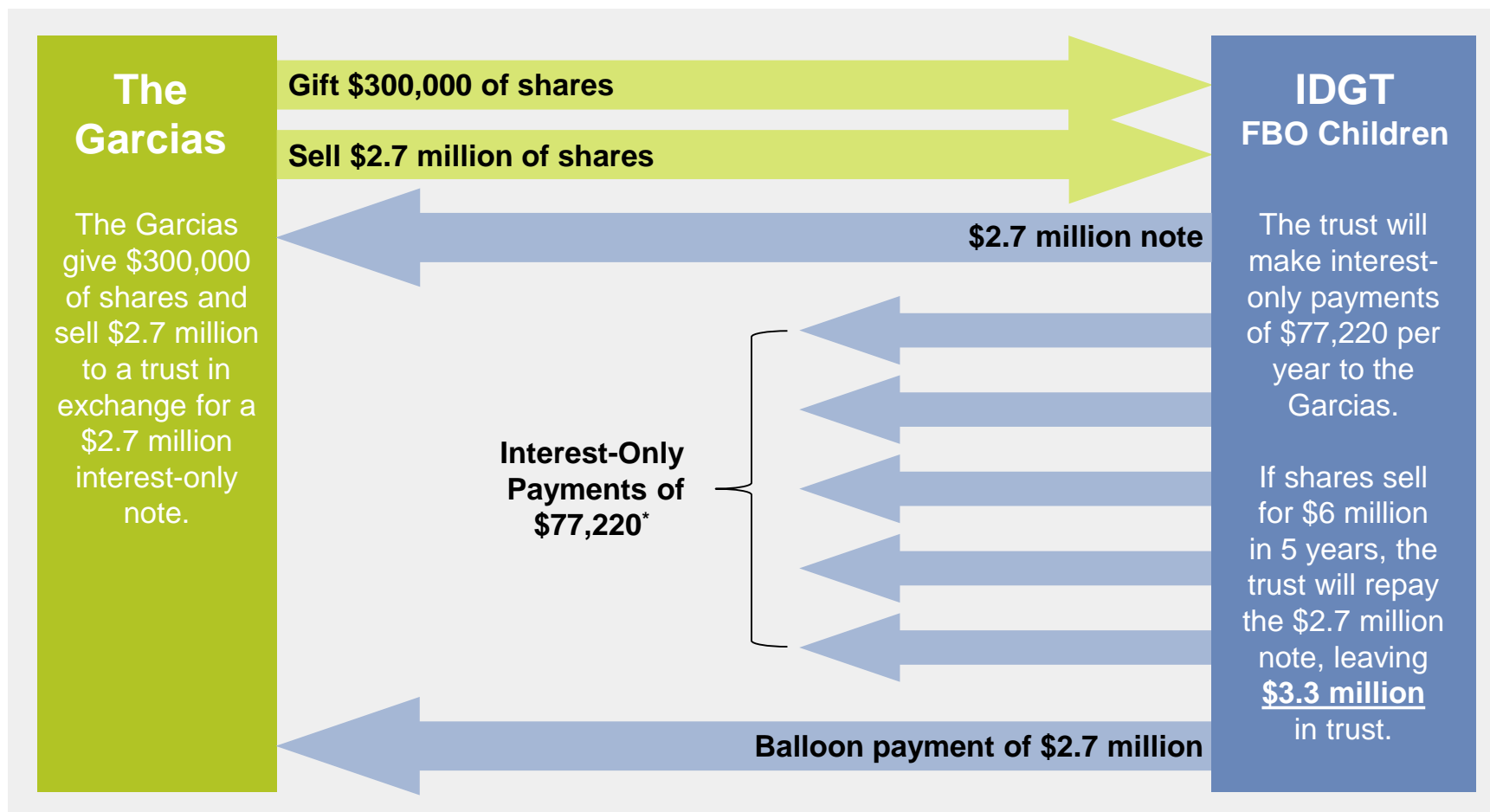
# Intentionally Defective Grantor Trusts



- An “intentionally defective grantor trust” (“IDGT”) is considered “owned” by the donor for income tax purposes
- All trust income/capital gains are taxable to the donor, allowing IDGT to effectively grow tax-free. Distributions to beneficiaries are also free of income tax.
- Gifts to the trust are nonetheless excluded from the donor’s estate
- The IRS has ruled that:
  - The donor’s payment of income tax does not constitute a gift to the trust for gift tax purposes
  - Transactions between an IDGT and the trust donor are ignored for income tax purposes, and so the donor’s sale of appreciated assets to the trust does not result in capital-gains recognition



# Sale to an IDGT Can Potentially Transfer Wealth

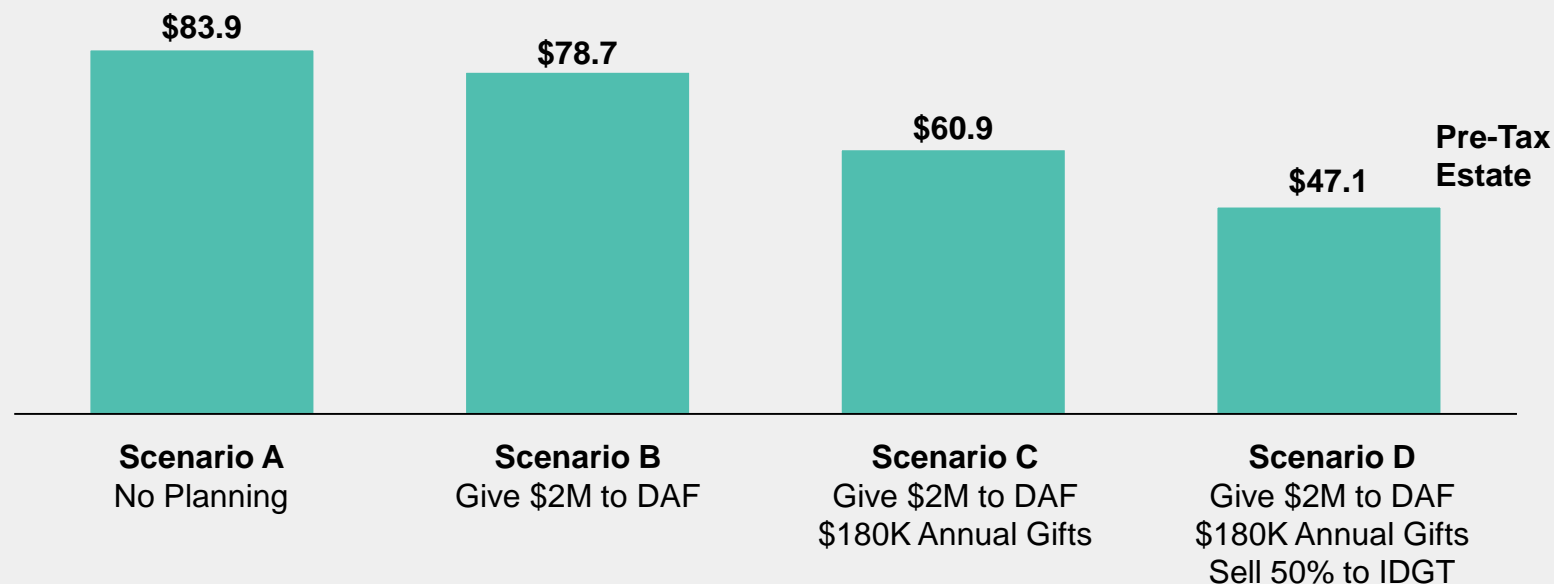


\*The interest rate on the note is determined by current Applicable Federal Rate (AFR) and the term of the note. In our example, the rate is 2.86% based on the mid-term AFR rate. It is assumed that the interest-only payments are made by using either separate annual gifts received or income distributions from the shares. **Bernstein does not provide tax or legal advice; please consult professionals in these fields prior to making any decisions regarding strategies modeled in this analysis.**

# Giving to Charity and Family Reduces the Garcia's Estate...

## Median Wealth—Year 30 (USD Million, Nominal)

Private Equity Deal—With \$12M 2<sup>nd</sup> Sale



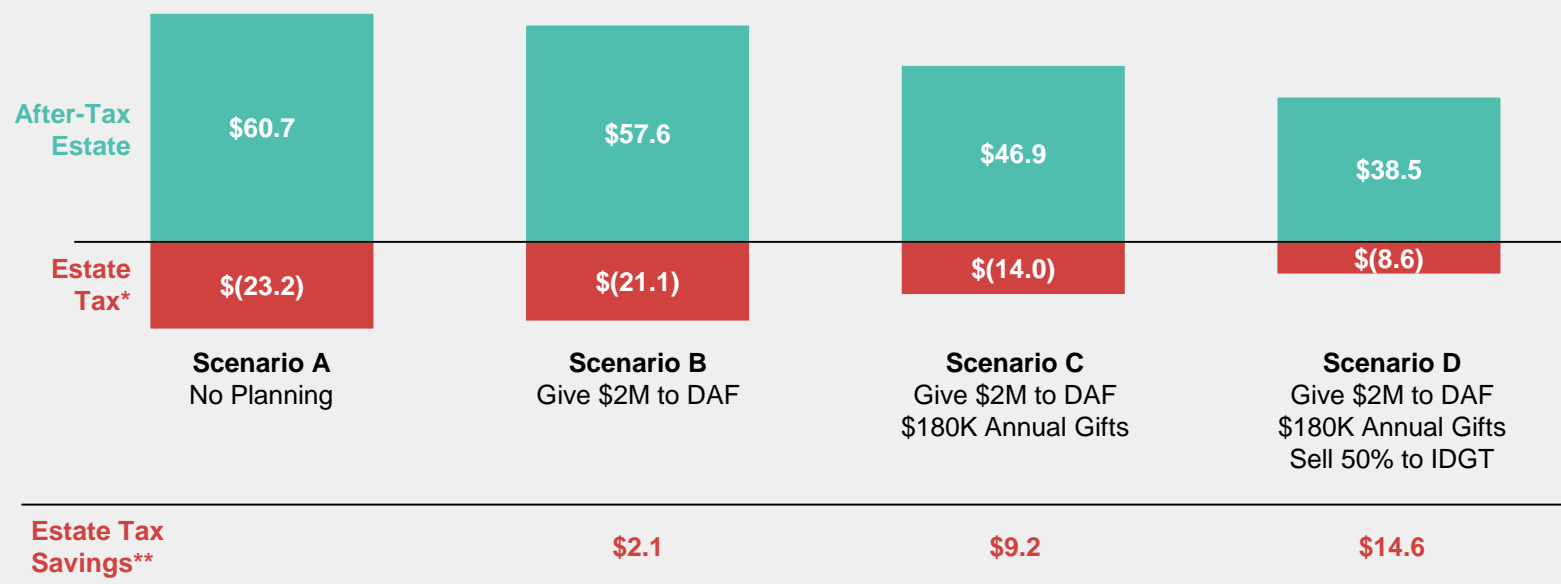
In the Donor-Advised Fund (DAF) scenarios, \$2 million of business interests is donated to the DAF pre-transaction, and the DAF is assumed to distribute \$50,000 annually to charities, adjusted with inflation. The DAF is invested in a moderate portfolio. Surplus capital in scenarios C and D is invested in a moderate allocation and used to source annual gifts. Annual gifts are directed to an IDGT for the benefit of heirs, and reinvested in a moderate portfolio. A moderate portfolio is 50% global stocks, 3% real assets, 12% alternatives, and 35% intermediate-term bonds.

Projections 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 Wealth Forecasting System in Appendix for further details.

## ...Which Lowers Their Estate Tax Liability

### Median Wealth—Year 30 (USD Millions, Nominal)

Private Equity Deal—With \$12M 2nd Sale



\*Estate tax assumes current \$11.2 million exclusion sunsets to \$5.6 million in 2026, adjusted for inflation. We assume that the inflation adjustment will make the exclusion amount \$13 million per person in 30 years. Estate tax is assumed to be 40% of estate in excess of available exclusion.

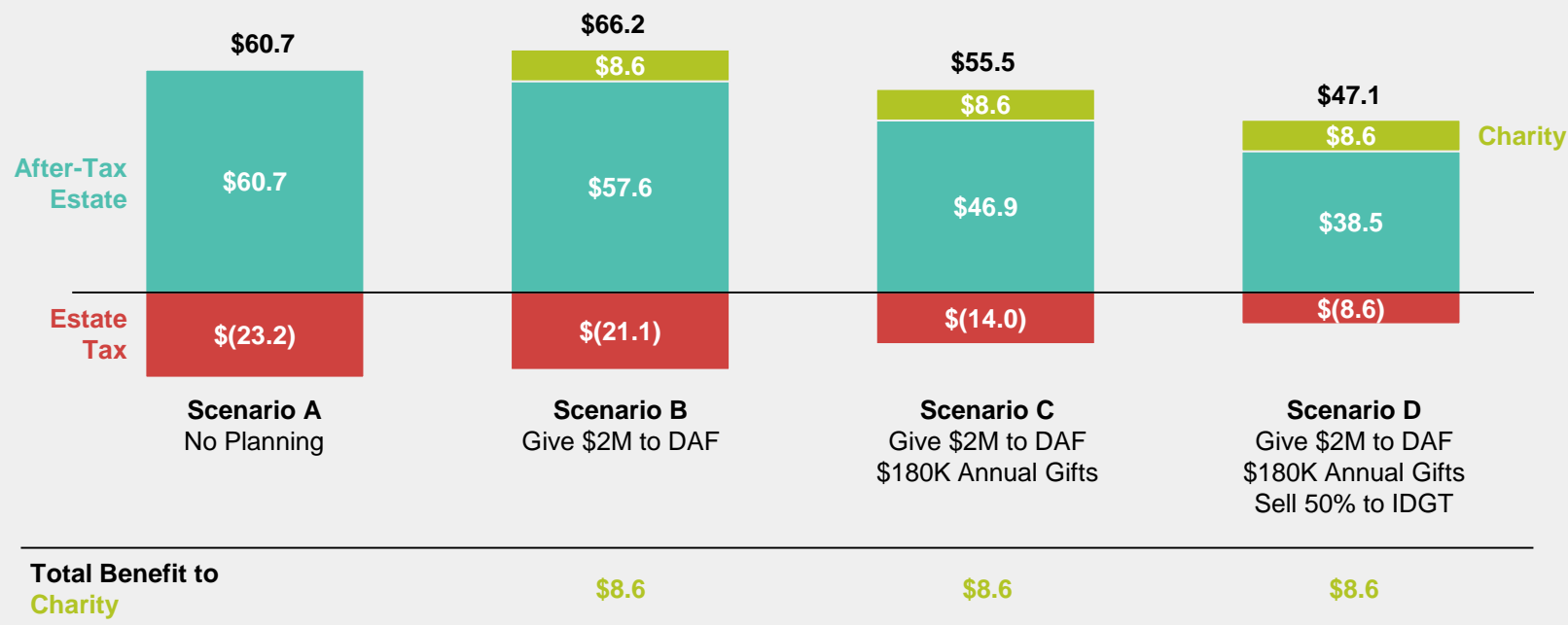
\*\*Estate tax savings compares the total estate tax paid in scenarios B, C, and D relative to scenario A.

Projections 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 Wealth Forecasting System in Appendix for further details.

# Creating a Significant Charitable Legacy and....

## Median Wealth—Year 30 (USD Millions, Nominal)

Private Equity Deal—With \$12M 2nd Sale

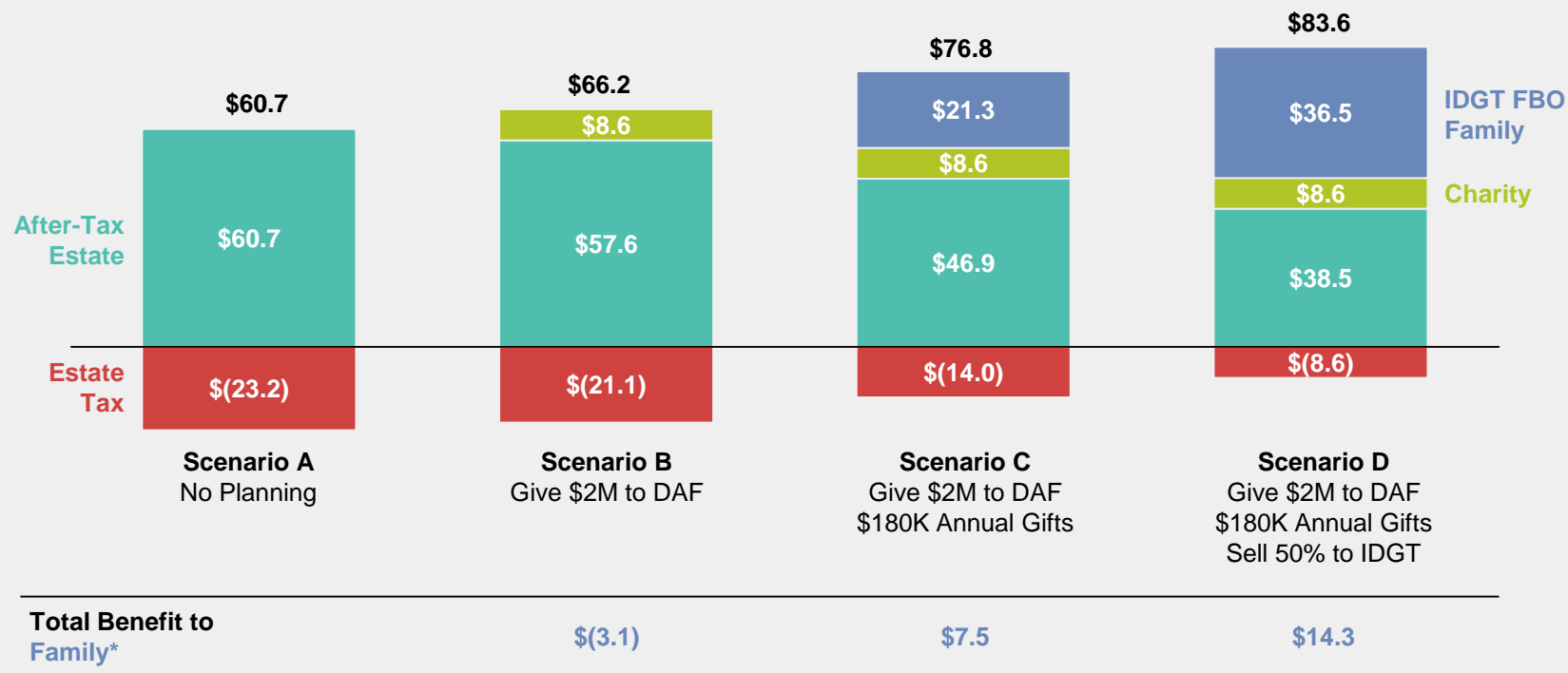


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## ...Family Legacy

### Median Wealth—Year 30 (USD Millions, Nominal)

Private Equity Deal—With \$12M 2nd Sale



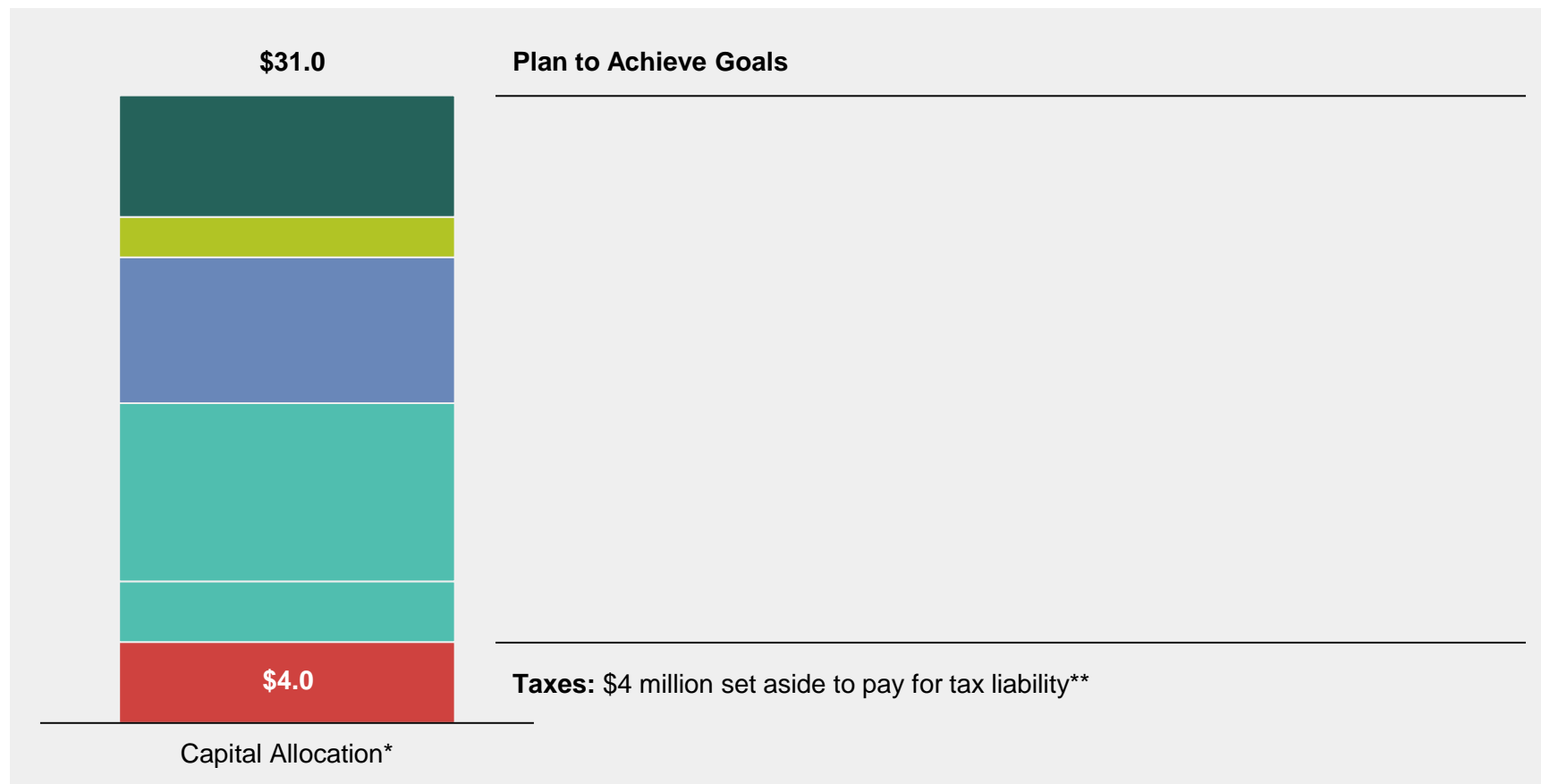
In the Donor-Advised Fund (DAF) scenarios, \$2 million of business interests is donated to the DAF pre-transaction, and the DAF is assumed to distribute \$50,000 annually to charities, adjusted with inflation. The DAF is invested in a moderate portfolio. Charity reflects the cumulative value of annual charitable gifts plus remaining assets in the DAF. Surplus capital in scenarios C and D is invested in a moderate allocation and used to source annual gifts. Annual gifts are directed to an IDGT for the benefit of family, and reinvested in a moderate portfolio.

\*Total benefit to family calculates the sum of the after-tax estate and IDGT FBO Family in scenarios B, C, and D to scenario A.

Projections 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 Wealth Forecasting System in Appendix for further details.

# Putting it All Together—The Garcias' Road Map

\$Millions



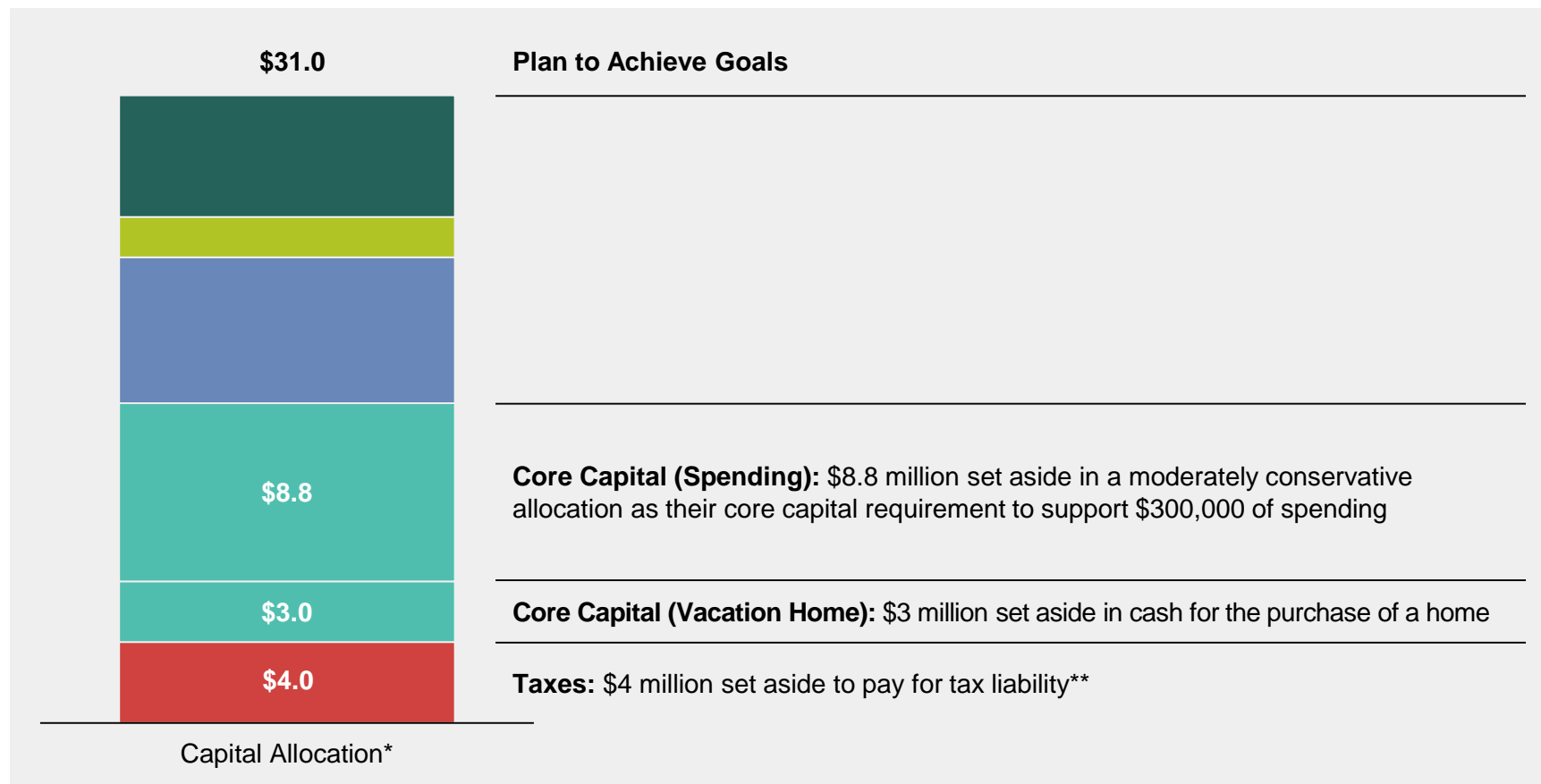
\*Capital allocation illustrates where all proceeds will be held at the time of the sale. The \$31 million includes the sales proceeds of \$30 million as well as the current assets of \$1 million.

\*\*The \$2 million in the DAF assumed that the Garcias gave \$2 million worth of units to a DAF before the sale, which results in a tax benefit of \$800,000. As a result, their overall tax liability is reduced by \$800,000.

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 future results or a range of future results.** See Notes on Bernstein Wealth Forecasting System for further details.

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\$Millions



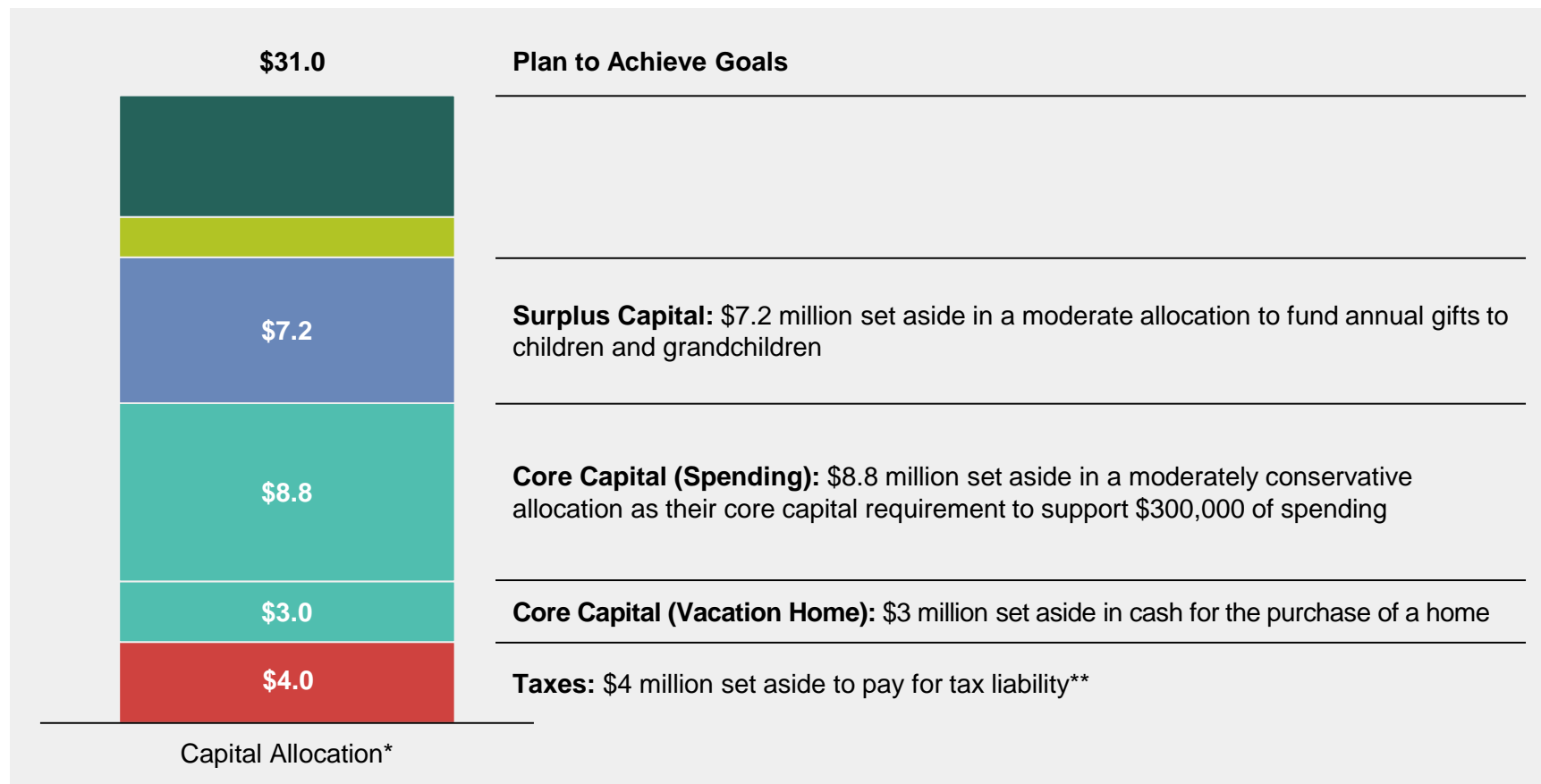
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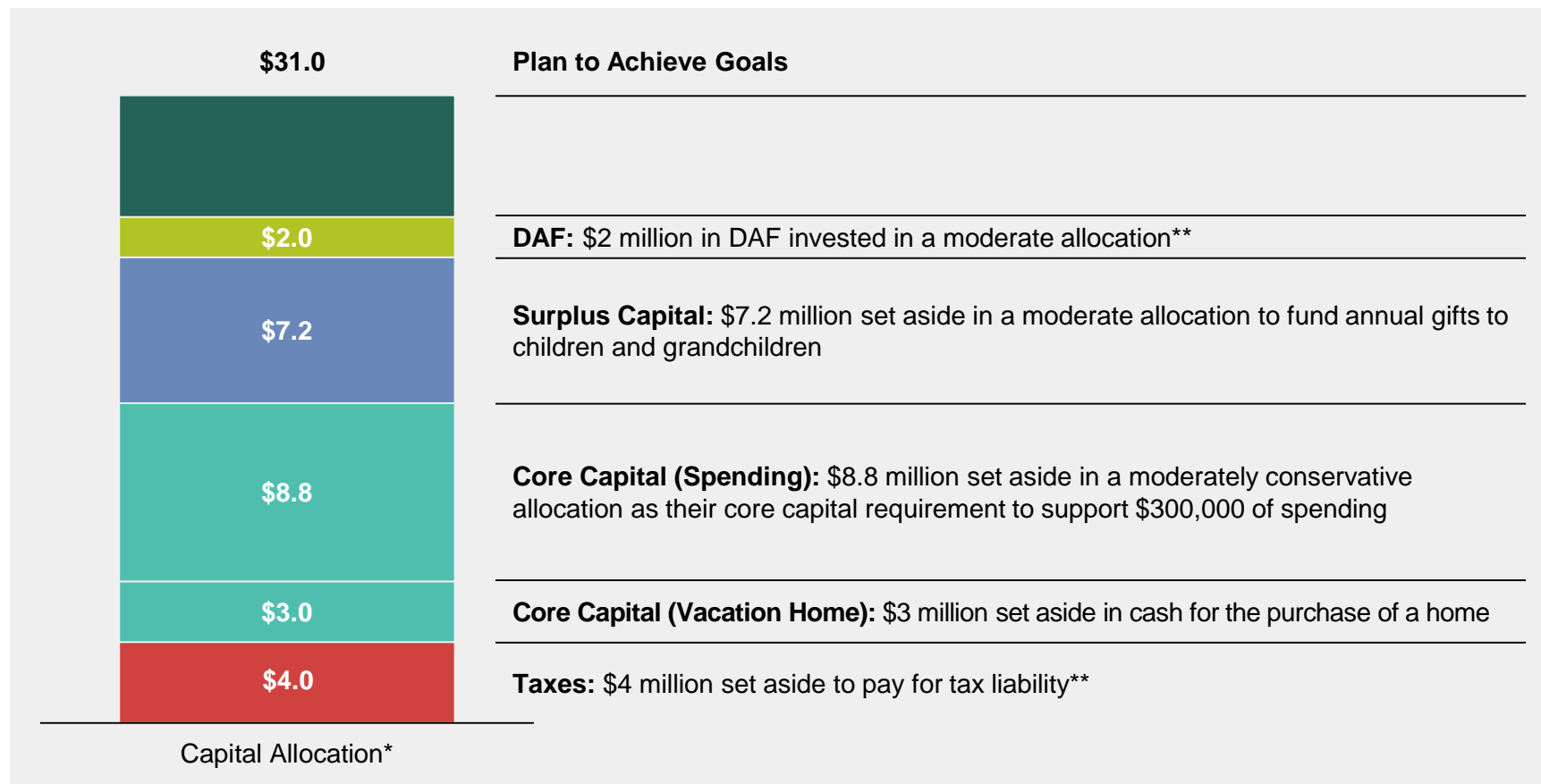
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# Putting it All Together—The Garcias' Road Map

\$Millions



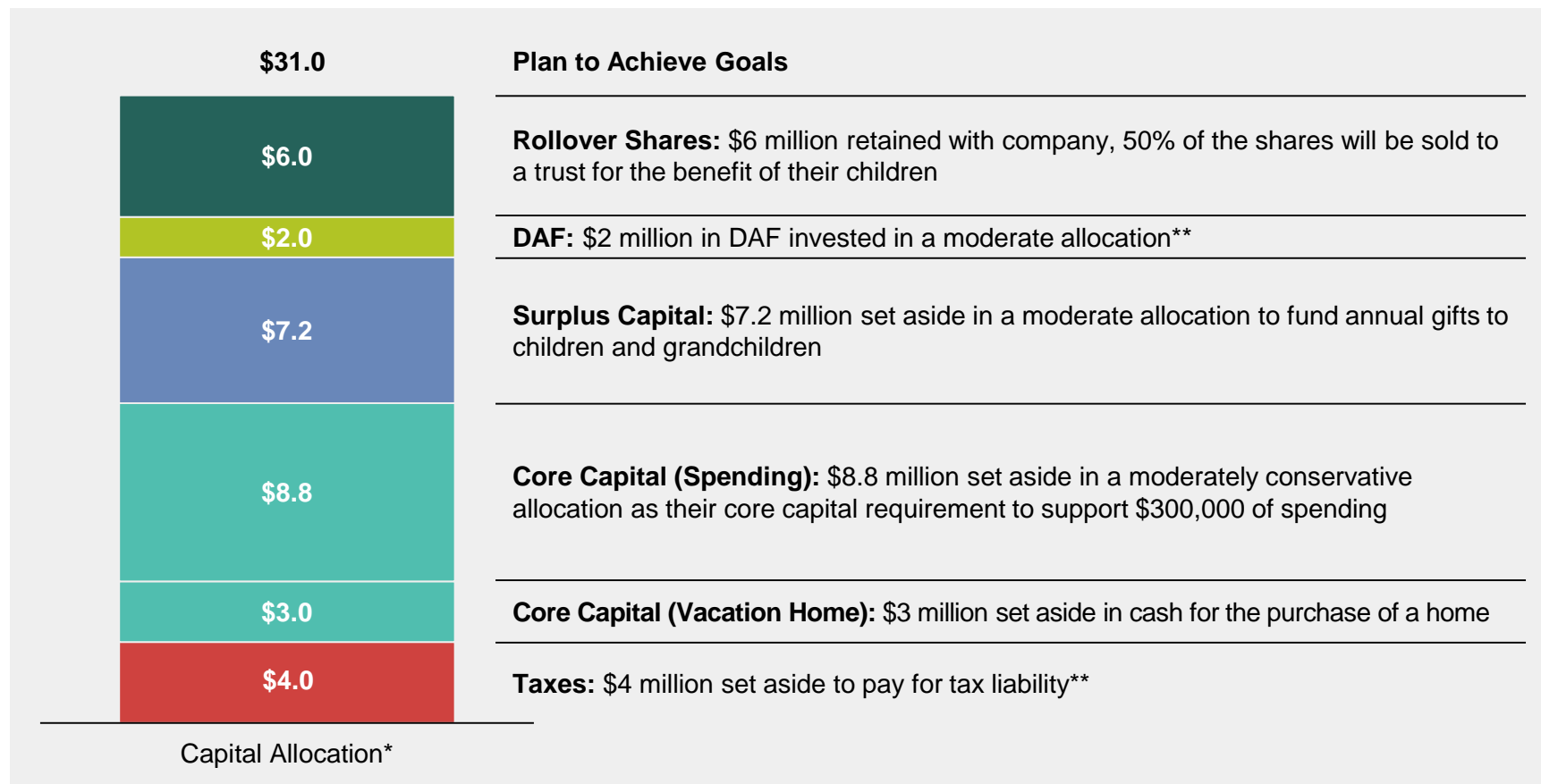
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# Putting it All Together—The Garcias' Road Map

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# Today's Call to Action

- Create and establish a written Exit Plan
- Integrate your personal and financial goals with your exit plan
- Quantify how much you need (i.e. your core capital)
- Consider transferring wealth to children or trusts out of estate
- Consider your charitable goals before you sell your business

# APPENDIX

# Capital-Market Projections: Next 35 Years

Percent

	Median 35-Year Growth Rate	Mean Annual Return	Mean Annual Income	1-Year Volatility	35-Year Annual Equivalent Volatility
Cash Equivalents	3.7	4.1	4.1	0.4	12.2
Int.-Term Diversified Municipals	3.7	4.0	3.9	4.1	9.3
Int.-Term Taxables	4.9	5.3	6.4	5.2	10.3
Int.-Term Inflation Munis	3.3	4.0	4.2	3.6	16.8
Inflation-Protected Bonds	4.3	5.0	5.3	3.5	19.3
Global Int. Taxable Bonds Hedged	4.2	4.5	5.5	4.3	10.9
Real Assets	6.9	8.2	4.3	13.1	19.0
Diversified Hedge Fund Portfolio	6.4	7.0	3.8	10.9	17.2
US Diversified	7.4	9.2	3.1	16.4	22.2
US Value	7.7	9.4	3.6	16.0	21.7
US Growth	7.1	9.2	2.5	18.2	23.7
US SMID	7.6	9.7	2.7	18.7	24.5
US Low-Vol Equity	7.5	8.7	4.3	14.2	18.5
Developed International	8.2	10.4	3.5	18.2	23.1
Emerging Markets	6.5	10.5	4.3	26.1	30.1
High-Risk Int'l	8.3	11.5	2.3	22.1	27.0
Inflation	3.3	3.8	n/a	1.2	13.0

Based on 10,000 simulated trials each consisting of 35-year periods. Reflects AB's estimates and the capital-market conditions as of December 31, 2017. For hedge-fund asset classes, "mean annual income" represents income and short-term capital gains.

Does not represent any past performance and is not a guarantee of any future specific risk levels or returns, or any specific range of risk levels or returns.

# Notes on Wealth Forecasting System

## 1. Purpose and Description of Wealth Forecasting System

AB's Wealth Forecasting System 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 hypothetical 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 probable returns and asset values the client could 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 guarantee results or establish the boundaries for all outcomes. Estimated 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 AB'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. Of course, no investment strategy or allocation can eliminate risk or guarantee returns.

## 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 70.5. 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 70.5; 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](http://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 59.5 years old. All Roth 401(k) plans will be rolled into a Roth IRA plan when the investor turns 59.5 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 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.

# Notes on 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 Rate
Cash Equivalents	3-month Treasury bills	100%
Intermediate-Term Diversified Municipals	AA-rated diversified municipal bonds of 7-year maturity	30%
Intermediate-Term Taxables	Taxable bonds with maturity of 7 years	30%
Int.-Term Inflation Munis	Long Int.-Term Diversified Munis, Long Int.-Term TIPS, and Short Int.-Term Treasury Adjusted for Cost	30%
Inflation-Protected Bonds	7-Year Treasury Inflation-Protected Security	30%
US Diversified	S&P 500 Index	15%
US Value	S&P/Barra Value Index	15%
US Growth	S&P/Barra Growth Index	15%
US Low-Vol Equity	MSCI US Minimum Volatility Index	15%
Developed International	MSCI EAFE Unhedged	15%
Emerging Markets	MSCI Emerging Markets Index	20%
US SMID	Russell 2500	15%
High-Risk Int'l	Country Fund	15%
Real Assets	1/3 NAREIT, 1/3 MSCI ACWI Commodity Producer Index, 1/3 DJ UBS Commodity Futures Index	30%
Diversified Hedge Funds Portfolio	Diversified Hedge Fund Asset Class	33%
Global Intermediate Taxable Bonds Hedged	7-year 50% Sovereign and 50% Investment-Grade Corporate Debt of Developed Countries	30%

# Notes on 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 that precedes 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%. AB's forecast of volatility is based on historical data and incorporates AB's judgment that the volatility of fixed-income assets is different for different time periods.

## 7. Technical Assumptions

AB's Wealth Forecasting System is based on a number of technical assumptions regarding the future behavior of financial markets. AB'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 December 31, 2017. Therefore, the first 12-month period of simulated returns represents the period from December 31, 2017, through December 31, 2018, and not necessarily the calendar year of 2017. A description of these technical assumptions is available on request.

## 8. Tax Implication

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. AB 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.



# Notes on Wealth Forecasting System

## 9. Tax Rates

AB's Wealth Forecasting System has used the following tax rates for this analysis:

Taxpayer	Start Year	End Year	Federal Income Tax	Federal Capital-Gains	State Income Tax	State Capital-Gains Tax	Tax Method Type
Mr. and Mrs. Client	2018	2018	see below	see below	see below	see below	Top Marginal Rates
Mr. and Mrs. Client	2019	2052	see below	see below	see below	see below	Automatic-Joint Filer

The federal income tax rate represents AB's estimate of either the top marginal tax bracket or an "average" rate calculated based upon the marginal rate schedule. The federal capital-gains tax rate is represented by the lesser of the top marginal income tax bracket 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 income tax rate represents AB's estimate of the "average" rate calculated based upon the applicable state's marginal tax schedule. Where an applicable state tax code permits the exclusion of a portion of capital-gains income from gross income for purposes of calculating state income tax, such exclusions have been included in the calculation.

## 10. Core Capital Analysis

The term "Core Capital" means the amount of money necessary to cover anticipated lifetime net spending. All non-Core Capital assets are termed "Excess Capital." AB 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 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.