



Value-Shifting Strategy

Reducing the Impact of a Taxable Termination

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Value-Shifting Strategy: Overview

Purpose: To shift future growth and corpus from an existing nonexempt trust (“existing trust”) to a new, otherwise virtually identical GST-exempt trust (“new trust”) by having the existing trust sell assets to the new trust in exchange for a balloon note at the long-term AFR. The strategy is most effective when the existing trust is the deemed owner of the new trust for federal income tax purposes. See Private Letter Ruling 201633021.

Sense of urgency: This strategy is effective only when the long-term AFR is very low, as it is currently. In May 2020, the long-term AFR will be 1.15%, an all-time low. As the Treasury yield curve steepens, as it inevitably will, the long-term AFR will rise.

New trust: The new trust may be structured either as a beneficiary defective inheritors’ trust (BDIT) or as a beneficiary deemed ownership trust (BDOT):

- A BDIT typically would be funded with a gift of \$5,000 to which the donor would allocate GST exemption. The new trust would grant the trustee of the existing trust a one-time “Crummey” power of withdrawal over the \$5,000 contribution to corpus. Creditworthiness of the new trust typically would be established using one or more personal guarantees.
- A BDOT typically would be funded with a much more substantial gift (e.g., \$500,000) to which the donor would allocate GST exemption. The new trust would grant the trustee of the existing trust an annual power of withdrawal over taxable income of the new trust. Based upon common practice, the new trust should be able to purchase \$9 of assets from the existing trust for each \$1 contributed.

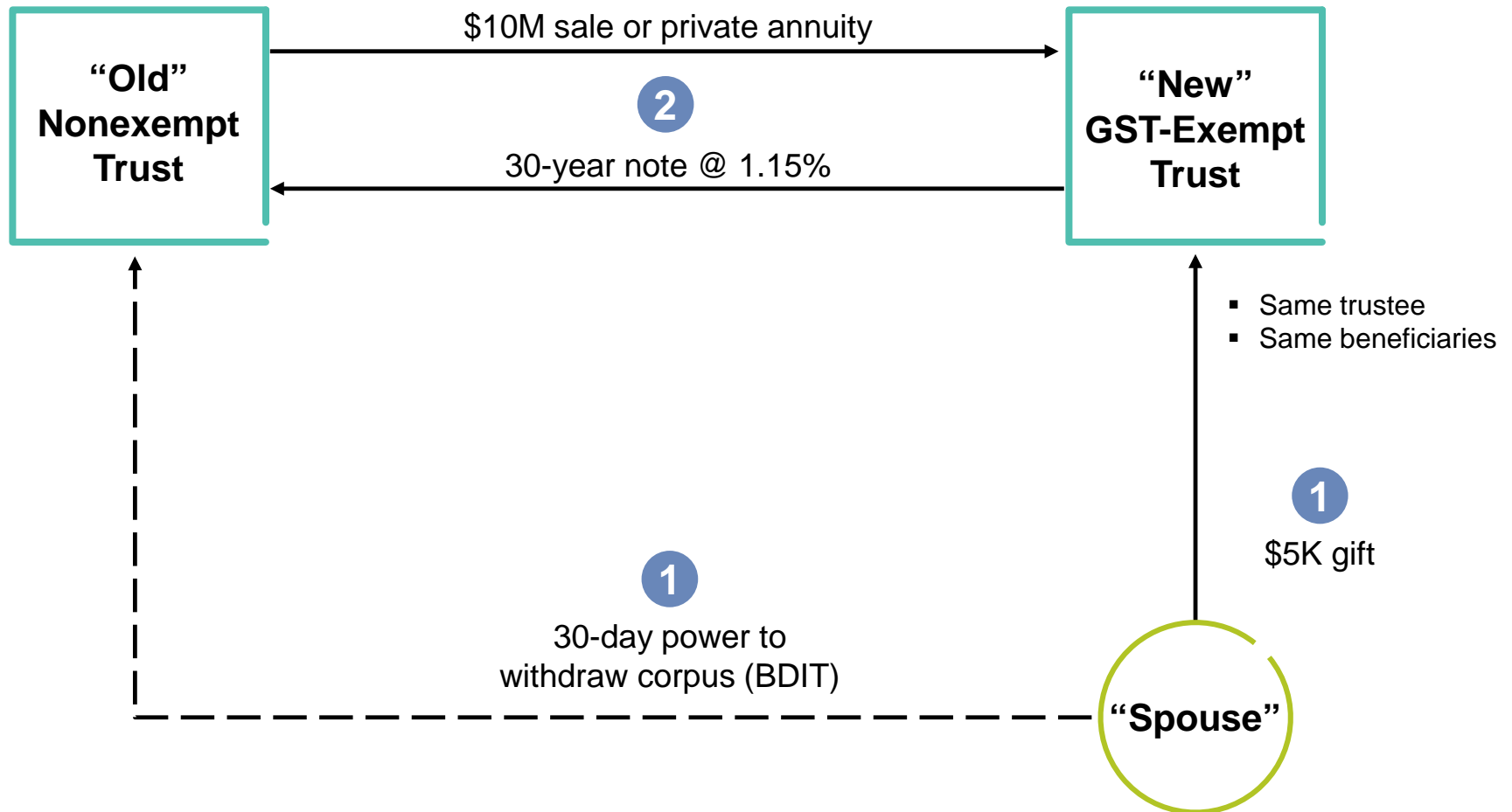
Value Shifting Strategy: Assumptions and Scenarios

Assumptions: For purposes of this analysis, we disregard any seed capital, personal guarantees, or regulatory “trust exhaustion rules.” Each trust portfolio is invested 80% in global stocks and 20% in intermediate-term municipal bonds. Except as otherwise provided in the scenario descriptions below, we disregard income other than portfolio income, and assume no distributions from or expenses incurred by either trust. We assume top marginal federal and Virginia income tax rates.

Scenarios:

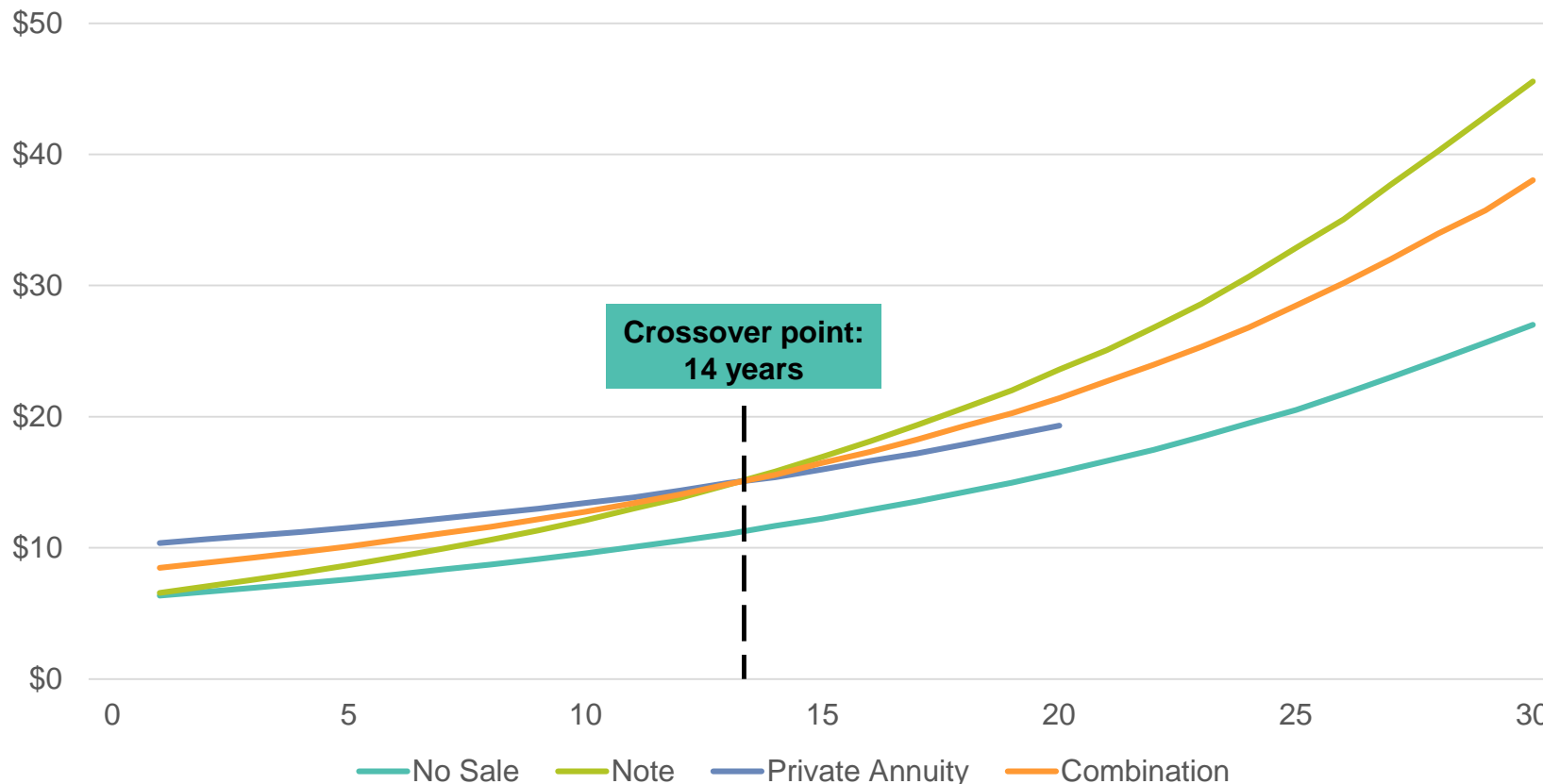
- Scenario A: No wealth transfer.
- Scenario B: Existing trust sells \$10 million of portfolio assets to new trust in exchange for a 30-year balloon note at the May 2020 long-term applicable federal rate (AFR) of 1.15%.
- Scenario C: Same as B, except assets are exchanged for a private annuity of \$615,926 per year for the life of a 65-year-old nonskip person beneficiary.
- Scenario D: Existing trust sells \$10 million of portfolio assets to new trust in exchange for (1) a \$5 million 30-year balloon note at the May 2020 long-term applicable federal rate (AFR) of 1.15%; and (2) a private annuity of \$307,963 per year for the life of a 65-year-old nonskip person beneficiary.

Value-Shifting Strategy



The Private Annuity Produces a Better Outcome than the Sale ... But Only if the Annuitant Lives Less than 15 Years

Total Value of Non-Exempt and Exempt Trust After GST Taxes
(\$Millions, Nominal)
Typical Markets*

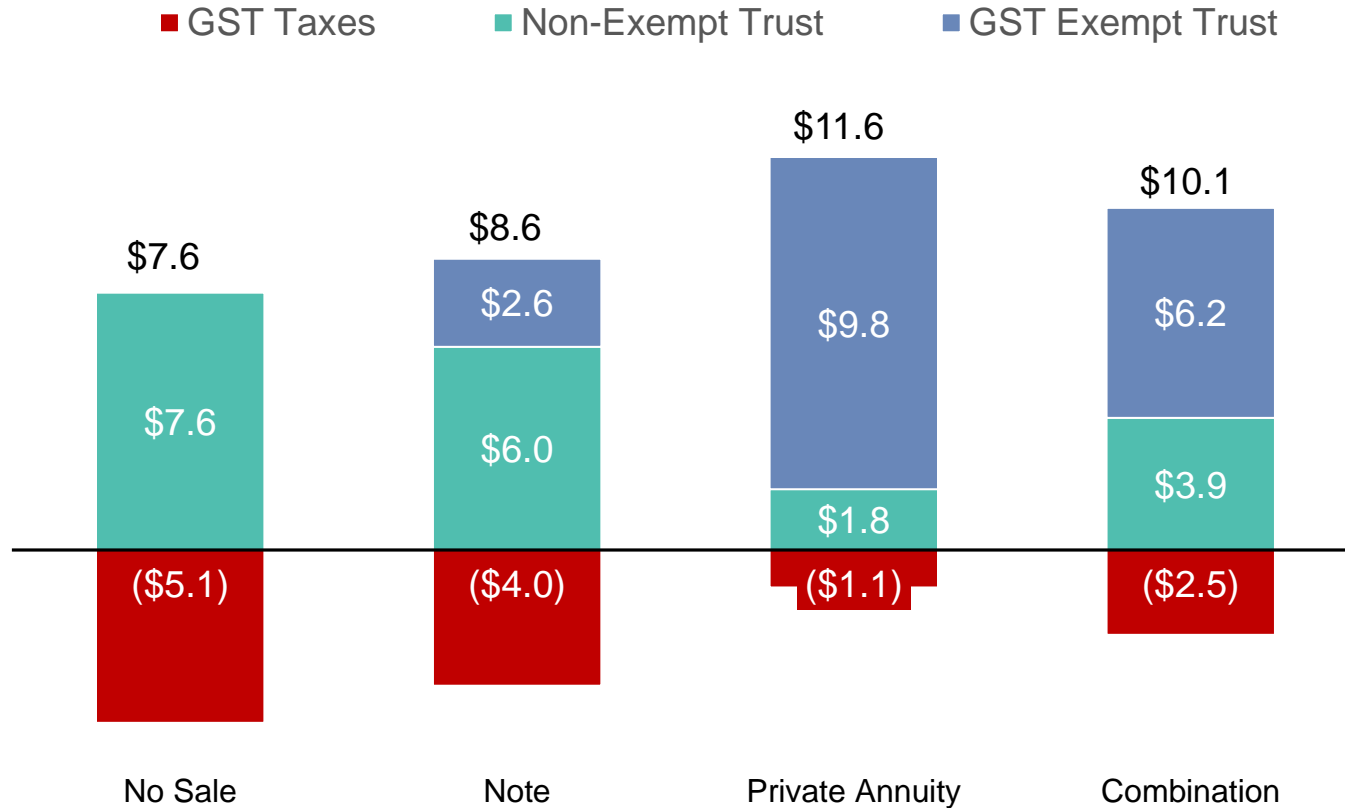


*"Typical Markets" means 50th percentile results of 10,000 trials in our Wealth Forecasting System. Based on AB's estimate of returns for the applicable capital market (as of December 31, 2019) over the next 30 years. In Scenario C (the "Private Annuity" scenario), the Exempt Trust portfolio is exhausted in a substantial portion of our 10,000 market trials after 20 years. Values reflect the after GST tax value of the combined non-exempt trust and exempt trust assets, assuming GST taxes were paid in the year indicated. Assumes GST tax rate of 40% on assets held in the non-exempt trust. 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 Wealth Forecasting System in the appendix.

Breakdown of Wealth Between Non-Exempt and Exempt Trust: Year 5

Typical Markets* (\$Millions, Nominal)

After GST Taxes**



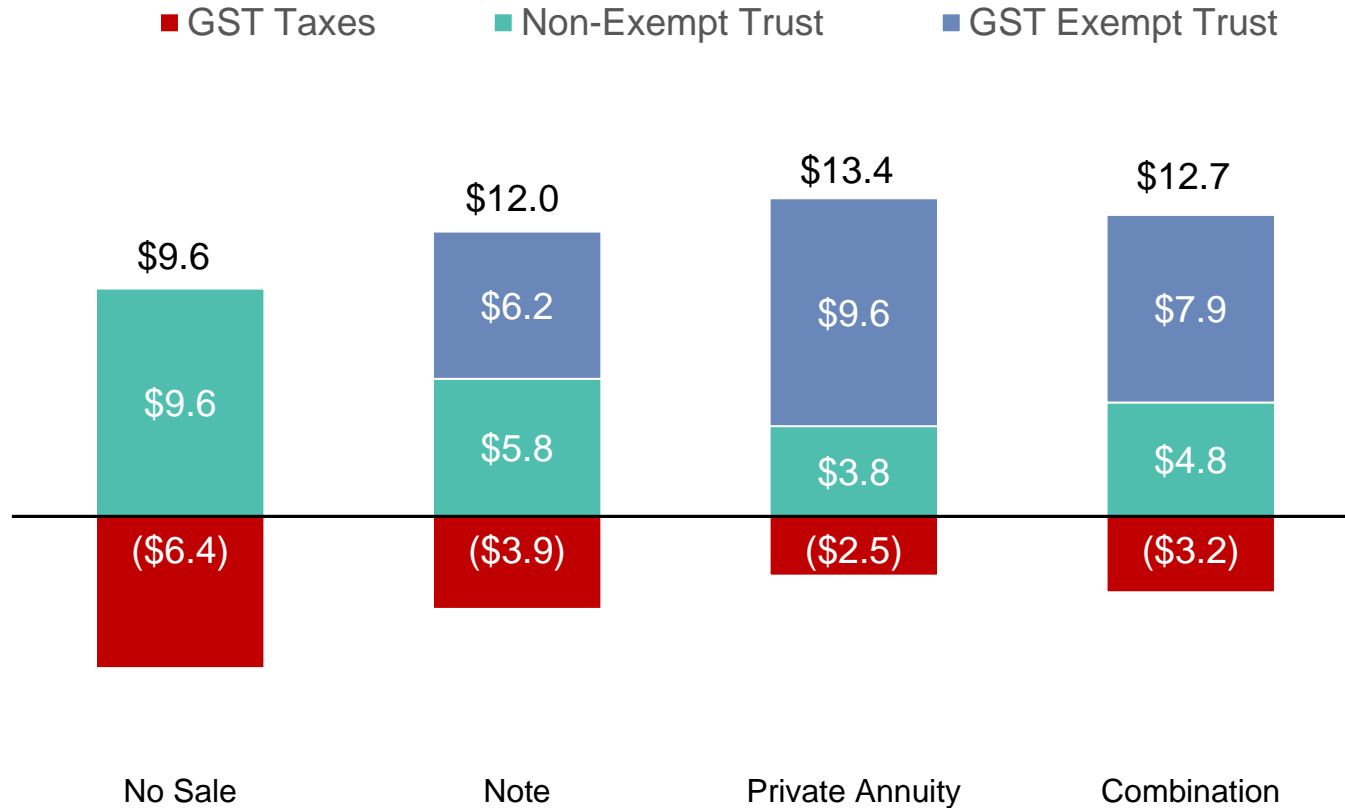
*"Typical Markets" means 50th percentile results of 10,000 trials in our Wealth Forecasting System. Based on AB's estimates of the range of returns for the applicable capital market (as of December 31, 2019) over the next 5 years.

In all Scenarios we have assumed any assets remaining in the Non-Exempt Trust will be subject to GST taxes of 40%. Any assets in the GST Exempt Trust are exempt from GST taxation. 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 Wealth Forecasting System in the Appendix. Numbers may not sum due to rounding.

Breakdown of Wealth Between Non-Exempt and Exempt Trust: Year 10

Typical Markets* (\$Millions, Nominal)

After GST Taxes**



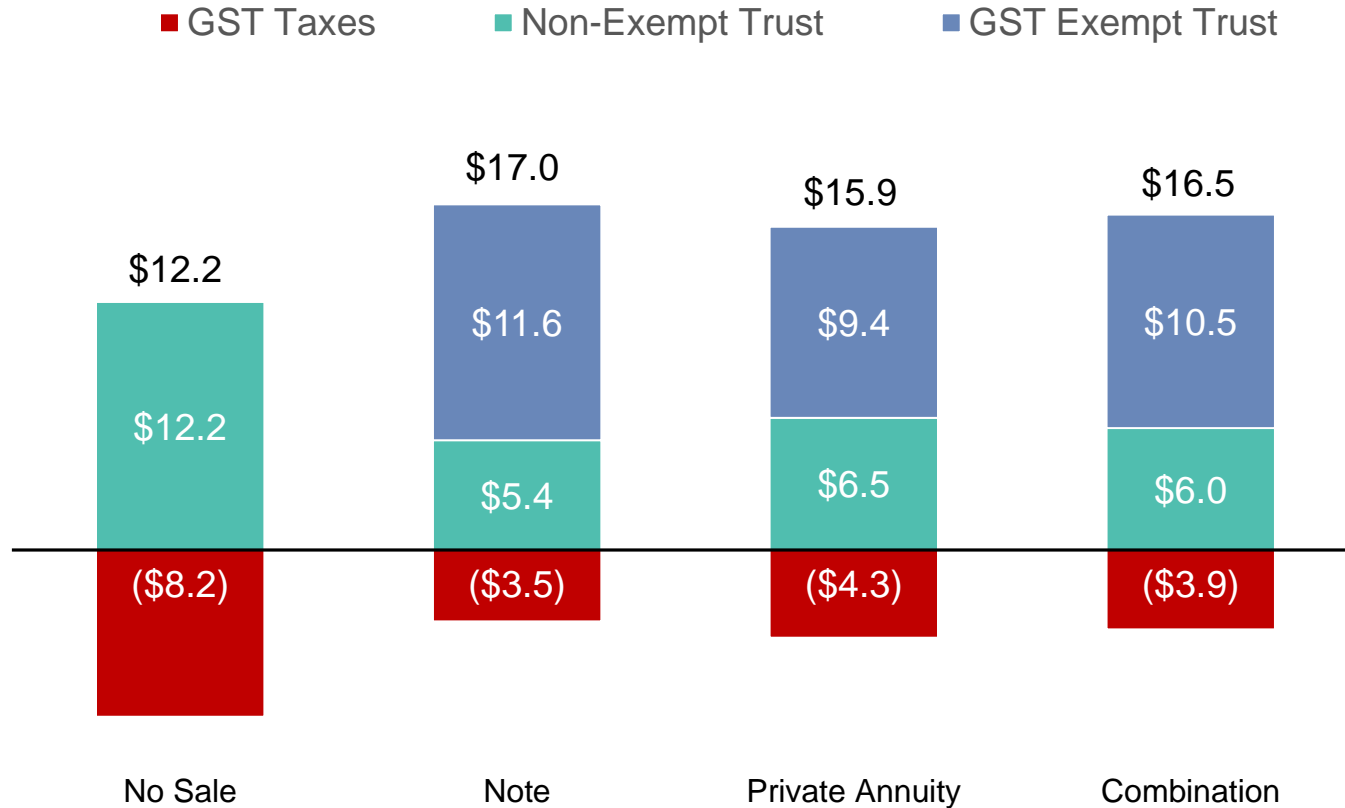
*Typical Markets" means 50th percentile results of 10,000 trials in our Wealth Forecasting System. Based on AB's estimates of the range of returns for the applicable capital market (as of December 31, 2019) over the next 10 years.

In all Scenarios we have assumed any assets remaining in the Non-Exempt Trust will be subject to GST taxes of 40%. Any assets in the GST Exempt Trust are exempt from GST taxation. 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 Wealth Forecasting System in the Appendix. Numbers may not sum due to rounding.

Breakdown of Wealth Between Non-Exempt and Exempt Trust: Year 15

Typical Markets* (\$Millions, Nominal)

After GST Taxes**



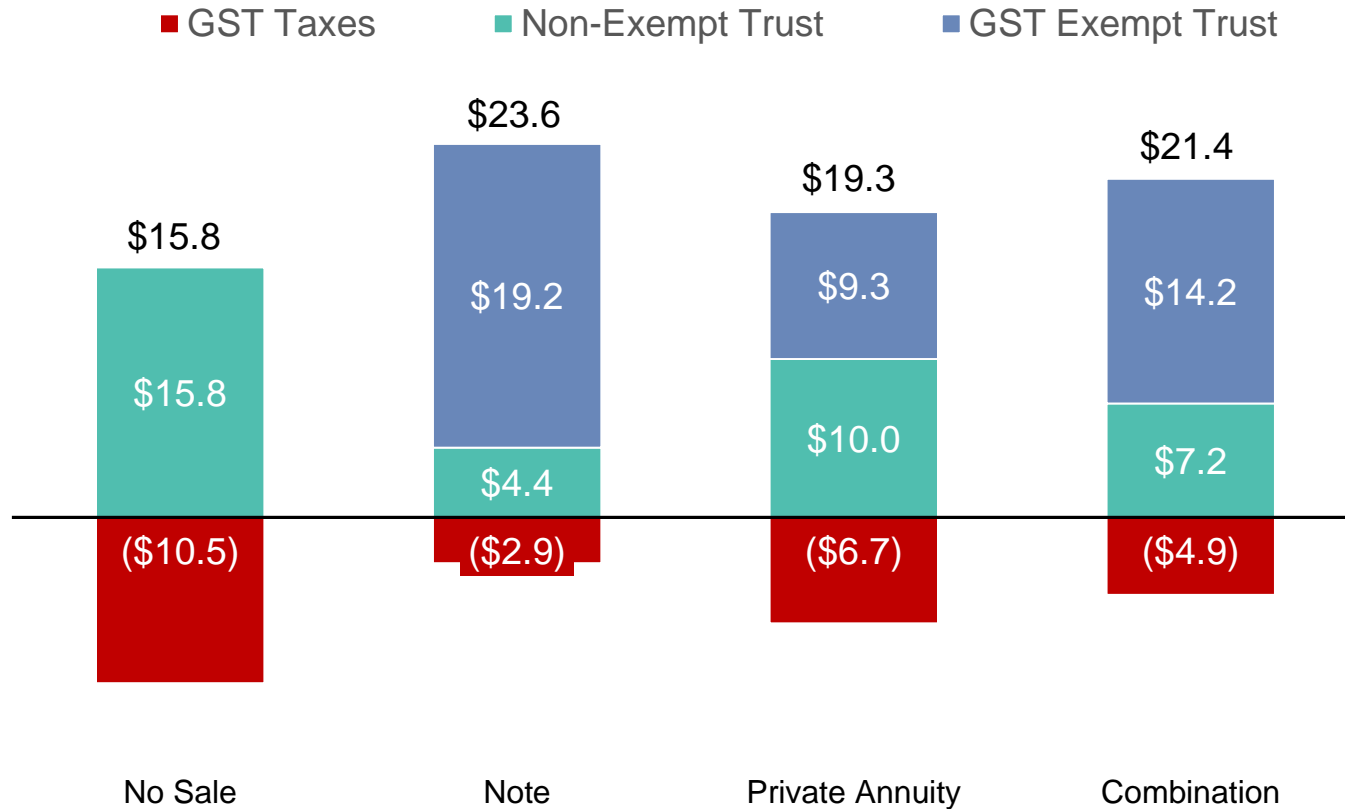
*"Typical Markets" means 50th percentile results of 10,000 trials in our Wealth Forecasting System. Based on AB's estimates of the range of returns for the applicable capital market (as of December 31, 2019) over the next 15 years.

In all Scenarios we have assumed any assets remaining in the Non-Exempt Trust will be subject to GST taxes of 40%. Any assets in the GST Exempt Trust are exempt from GST taxation. 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 Wealth Forecasting System in the Appendix. Numbers may not sum due to rounding.

Breakdown of Wealth Between Non-Exempt and Exempt Trust: Year 20

Typical Markets* (\$Millions, Nominal)

After GST Taxes**

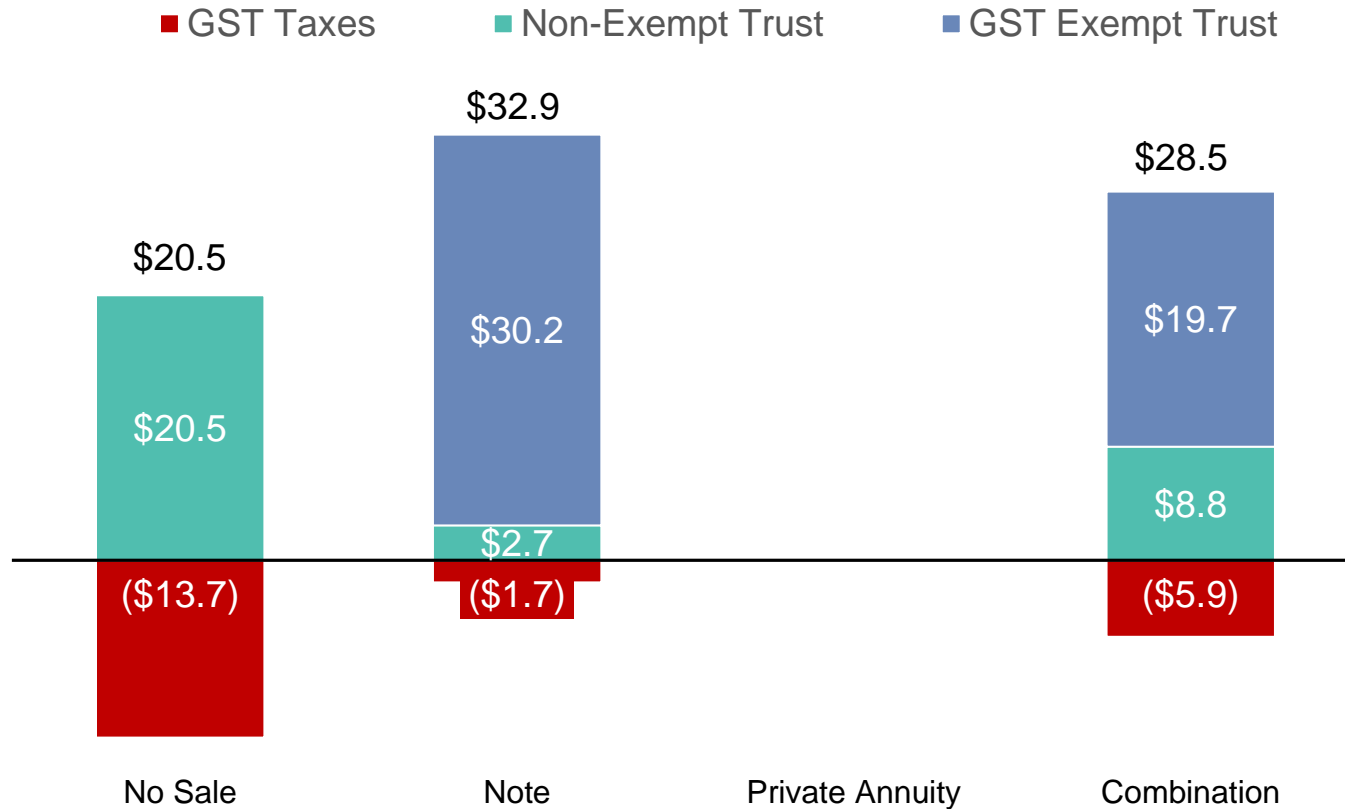


*"Typical Markets" means 50th percentile results of 10,000 trials in our Wealth Forecasting System. Based on AB's estimates of the range of returns for the applicable capital market (as of December 31, 2019) over the next 20 years.

In all Scenarios we have assumed any assets remaining in the Non-Exempt Trust will be subject to GST taxes of 40%. Any assets in the GST Exempt Trust are exempt from GST taxation. 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 Wealth Forecasting System in the Appendix. Numbers may not sum due to rounding.

Breakdown of Wealth Between Non-Exempt and Exempt Trust: Year 25

Typical Markets* (\$Millions, Nominal)
After GST Taxes**



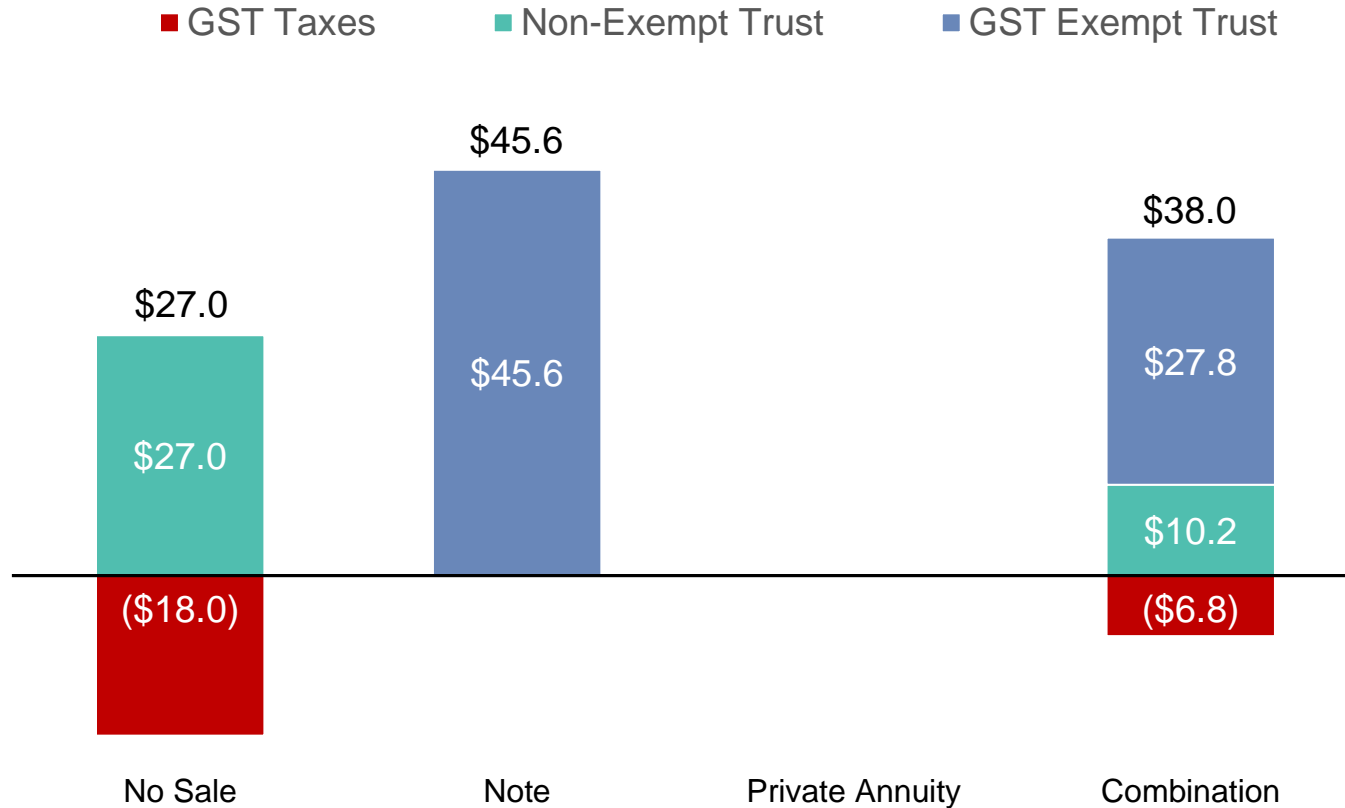
*"Typical Markets" means 50th percentile results of 10,000 trials in our Wealth Forecasting System. Based on AB's estimates of the range of returns for the applicable capital market (as of December 31, 2019) over the next 25 years. In Scenario C (the "Private Annuity" scenario), the Exempt Trust portfolio is exhausted in a substantial portion of our 10,000 market trials after 20 years.

In all Scenarios we have assumed any assets remaining in the Non-Exempt Trust will be subject to GST taxes of 40%. Any assets in the GST Exempt Trust are exempt from GST taxation. 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 Wealth Forecasting System in the Appendix. Numbers may not sum due to rounding.

Breakdown of Wealth Between Non-Exempt and Exempt Trust: Year 30

Typical Markets* (\$Millions, Nominal)

After GST Taxes**



*"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 market (as of December 31, 2019) over the next 30 years. In Scenario C (the "Private Annuity" scenario), the Exempt Trust portfolio is exhausted in a substantial portion of our 10,000 market trials after 20 years.

In all Scenarios we have assumed any assets remaining in the Non-Exempt Trust will be subject to GST taxes of 40%. Any assets in the GST Exempt Trust are exempt from GST taxation. 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 Wealth Forecasting System in the Appendix. Numbers may not sum due to rounding.