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Meeting Your Mission: Spending Policy and Fundraising

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Research and Investment Management Support for Nonprofits

Fund-Raising

- Development Officers
 - Reaching and motivating donors
 - Research on planned giving techniques
- Donors
 - Education on ABCs of gifting economics
 - Stress testing of various charitable giving opportunities
 - Customizing investment management to complexities of personal and charitable trusts

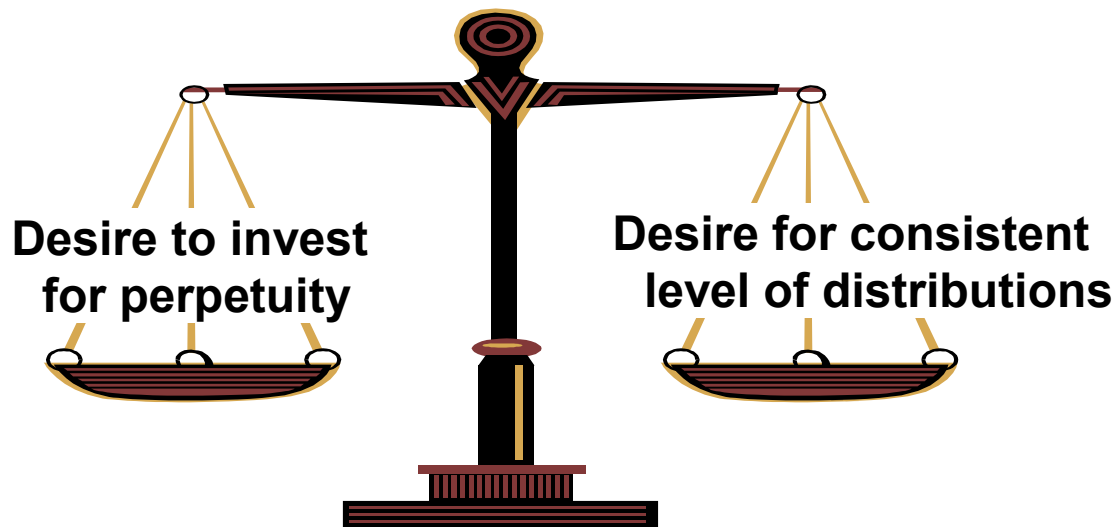
Fund Management

- Investment Committees
 - Spending and asset allocation policy decision making for endowments
 - Charity-run donor programs

The Need to Balance Conflicting Priorities

Most endowments and foundations were formed to exist in perpetuity

- The growth necessary to sustain a 5% spending rate and stay ahead of inflation requires a high allocation to equities...
- ...But a high allocation to equities entails greater volatility of annual returns, and less consistent charitable distributions?



Source: AllianceBernstein

Potential Solutions

Key drivers of success in achieving objectives:

■ Investment Policy

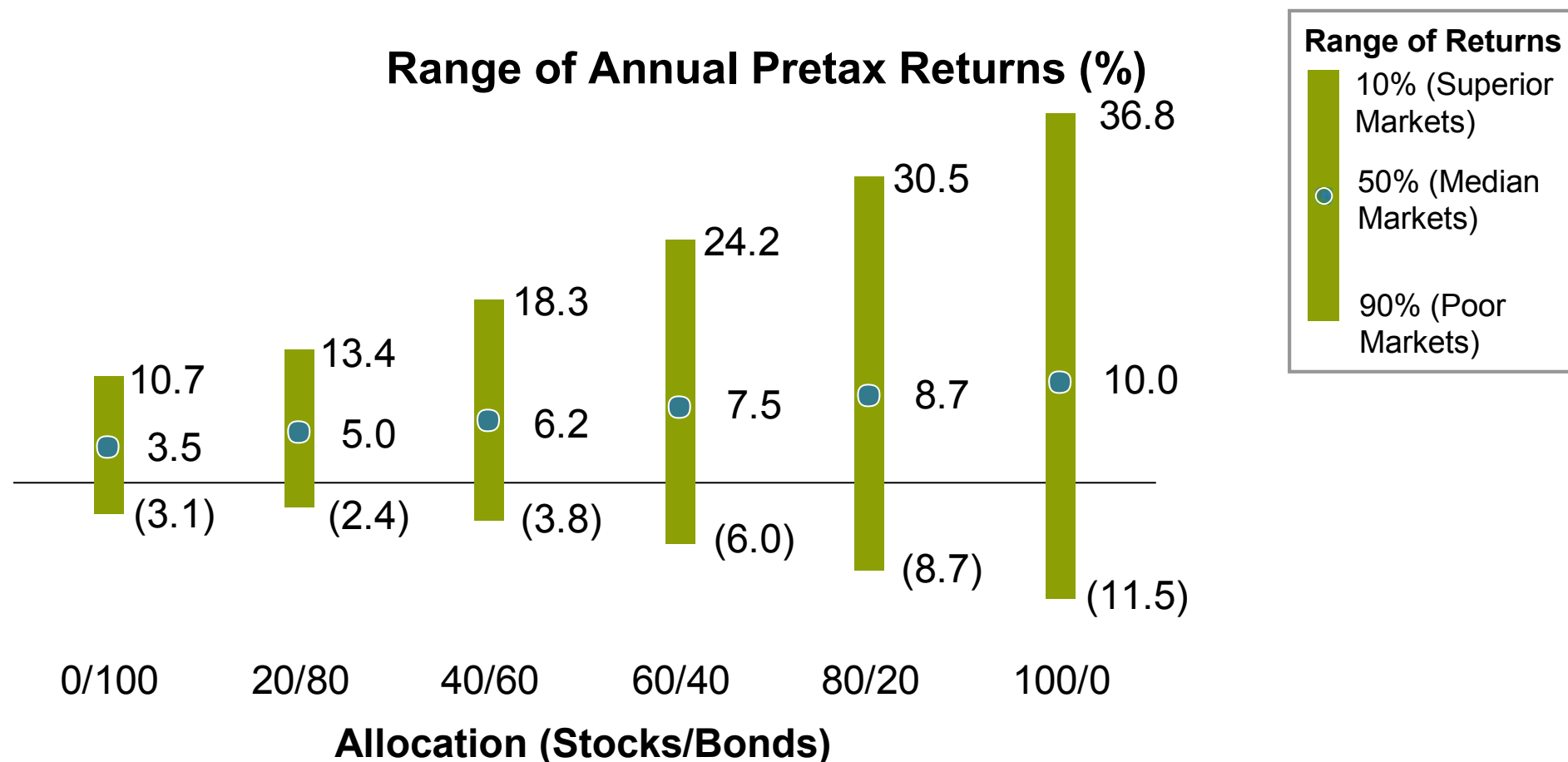
- Asset Allocation

■ Spending Policy

- Seek to maximize longevity?
- Seek to balance long-term growth with less volatile distributions?
- Seek stable giving, even if it reduces longevity?

Source: AllianceBernstein

Projected Returns of Various Allocations

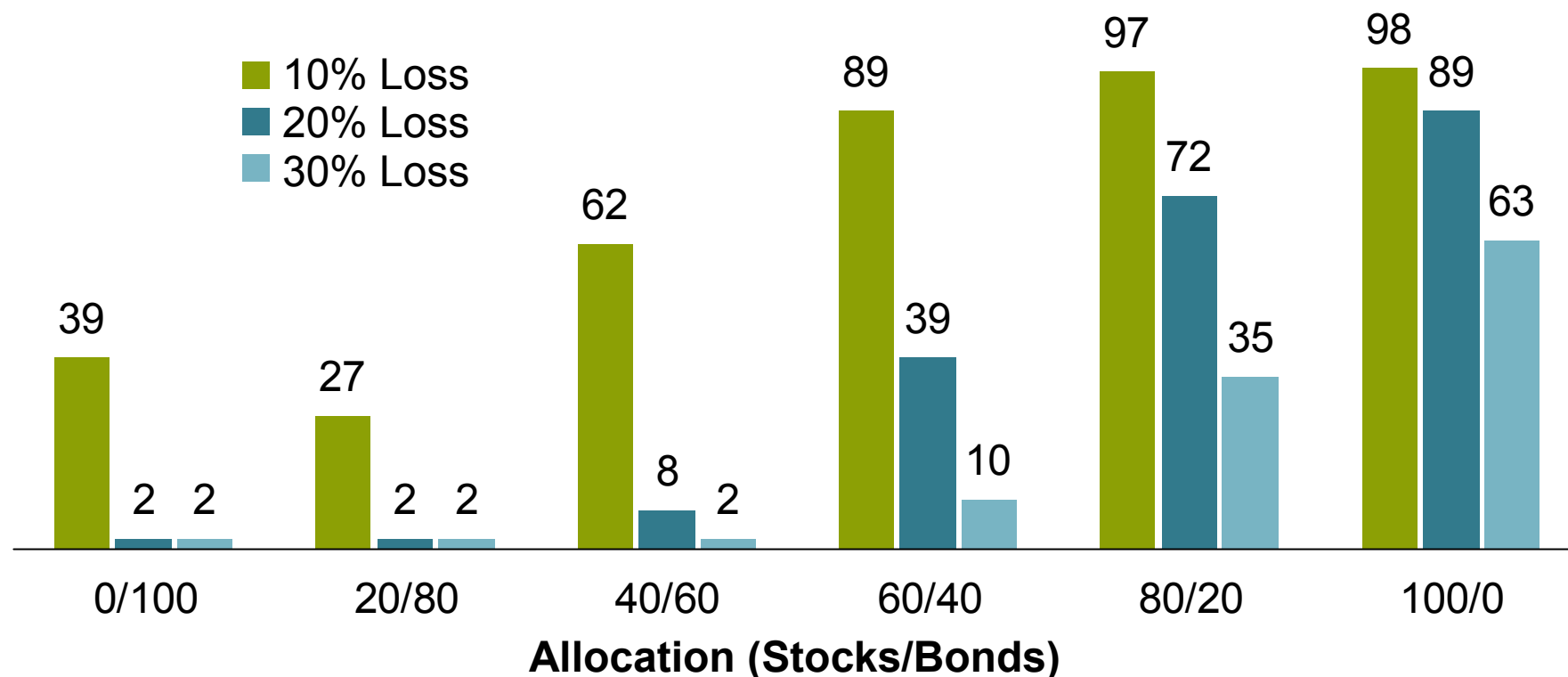


Data does not represent past performance and is not a promise of actual or range of future results. See Assumptions and Notes on Wealth Forecasting System in Appendix for further details. Asset allocations assume globally diversified stocks (35% US Value, 35% US Growth, 25% developed foreign markets, 5% emerging markets) and diversified intermediate term taxable bonds in the proportions noted.

Based on Bernstein's estimates of the range of returns for the applicable capital markets over the next 30 years as of September 30, 2011.

Projected Volatility of Various Allocations

Probability of Peak-to-Trough Losses (%)

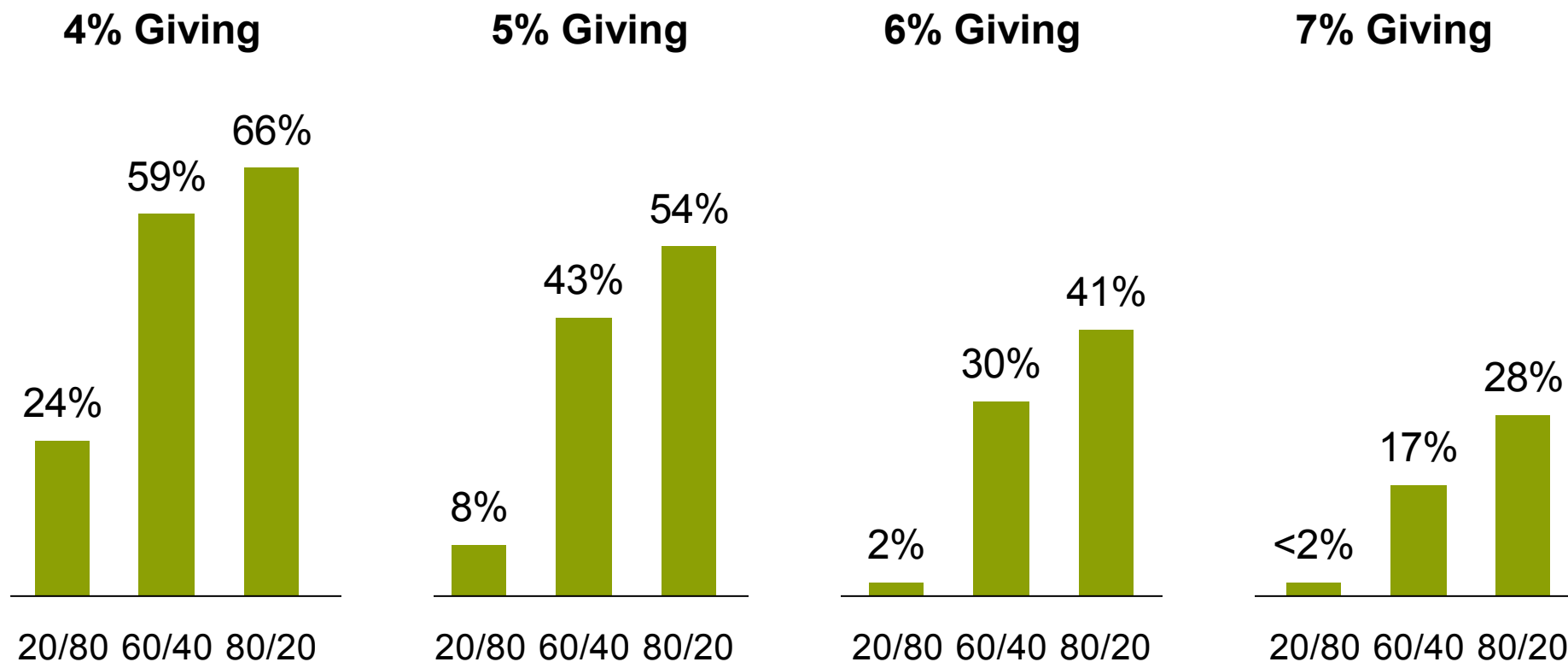


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Based on Bernstein's estimates of the range of returns for the applicable capital markets over the next 30 years as of September 30, 2011. Data indicates the probability of a peak-to-trough decline in pre-tax, pre-cash-flow cumulative returns of 10%, 20% or 30% over the next 30 years. Because the Wealth Forecasting System uses annual capital markets 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.

Keeping Up with Inflation: Outcome of Different Asset Allocations

Probability—Year 20



Data do not represent any past performance and are not a promise of actual future results.

Giving level is calculated as a percentage of annual assets. Allocations represent globally diversified balanced portfolios: the stock allocation is 35% US value, 35% US growth, 25% developed international and 5% emerging markets; the bond allocation is 100% intermediate taxables. Based on AllianceBernstein's estimates of the range of returns for the applicable capital markets over the next 20 years. See Notes on Wealth Forecasting System at the end of this presentation for further details.

Potential Solutions

Key drivers of success in achieving objectives:

- Asset Allocation

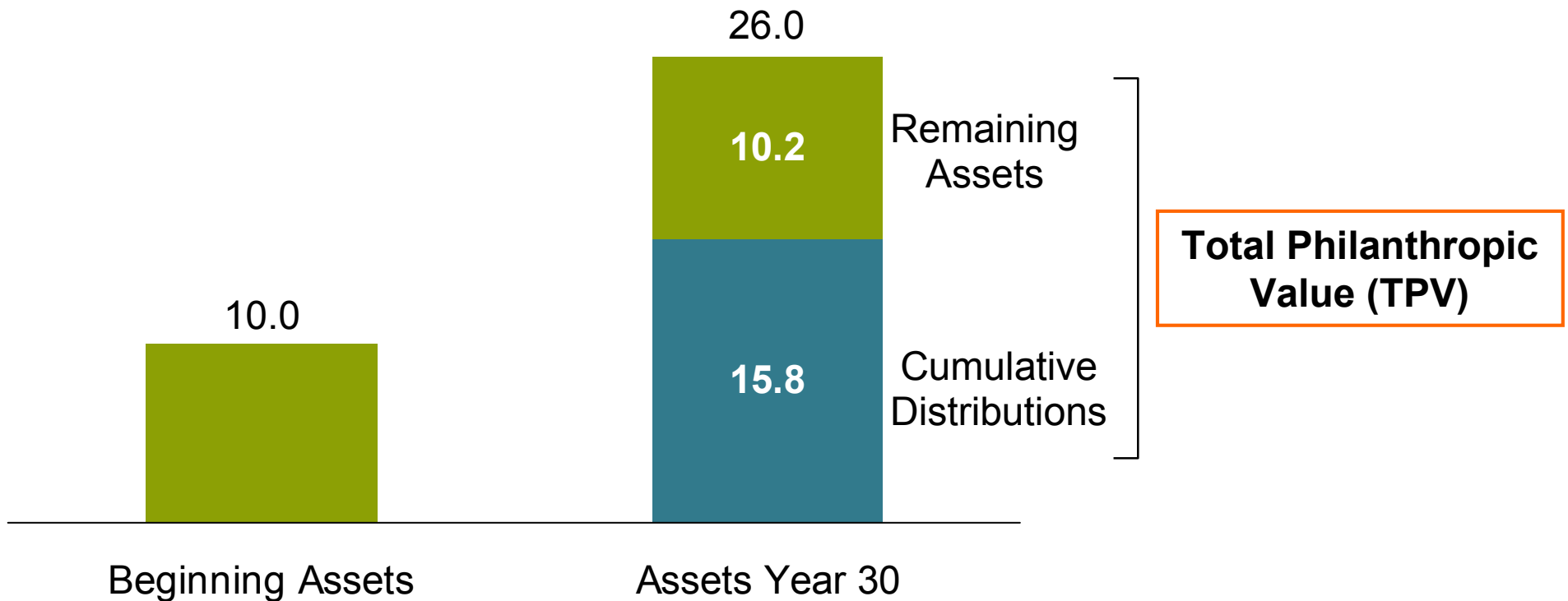
- Spending policy

- Seek to maximize longevity?
- Seek to balance long-term growth with less volatile distributions?
- Seek stable giving, even if it reduces longevity?

Source: AllianceBernstein

Total Philanthropic Value (TPV) Defined

70% Stocks/30% Bonds, Distributing 5% Annually
Median Forecast Results, Adjusted for Inflation (US\$ Millions)

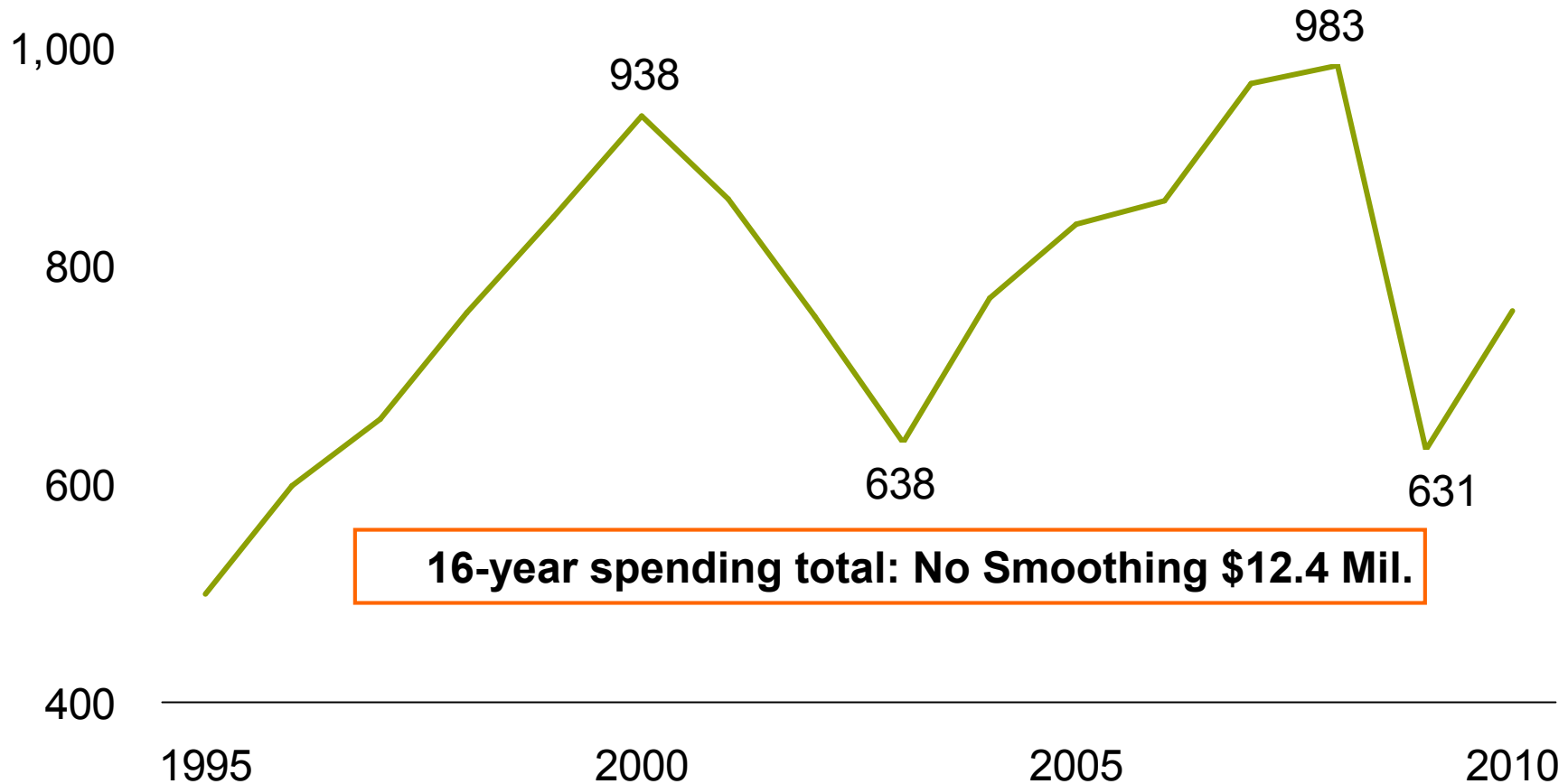


Initial assets of \$10 million.

Asset allocation is 65% Global Stocks/25% Intermediate Taxable Fixed Income/10% REITs. Global Stocks are 35% US Value/35% US Growth/25% Developed International/5% Emerging Markets. See Notes on Wealth Forecasting System in the Appendix of this presentation.

But Market Volatility Can Impact Distributions

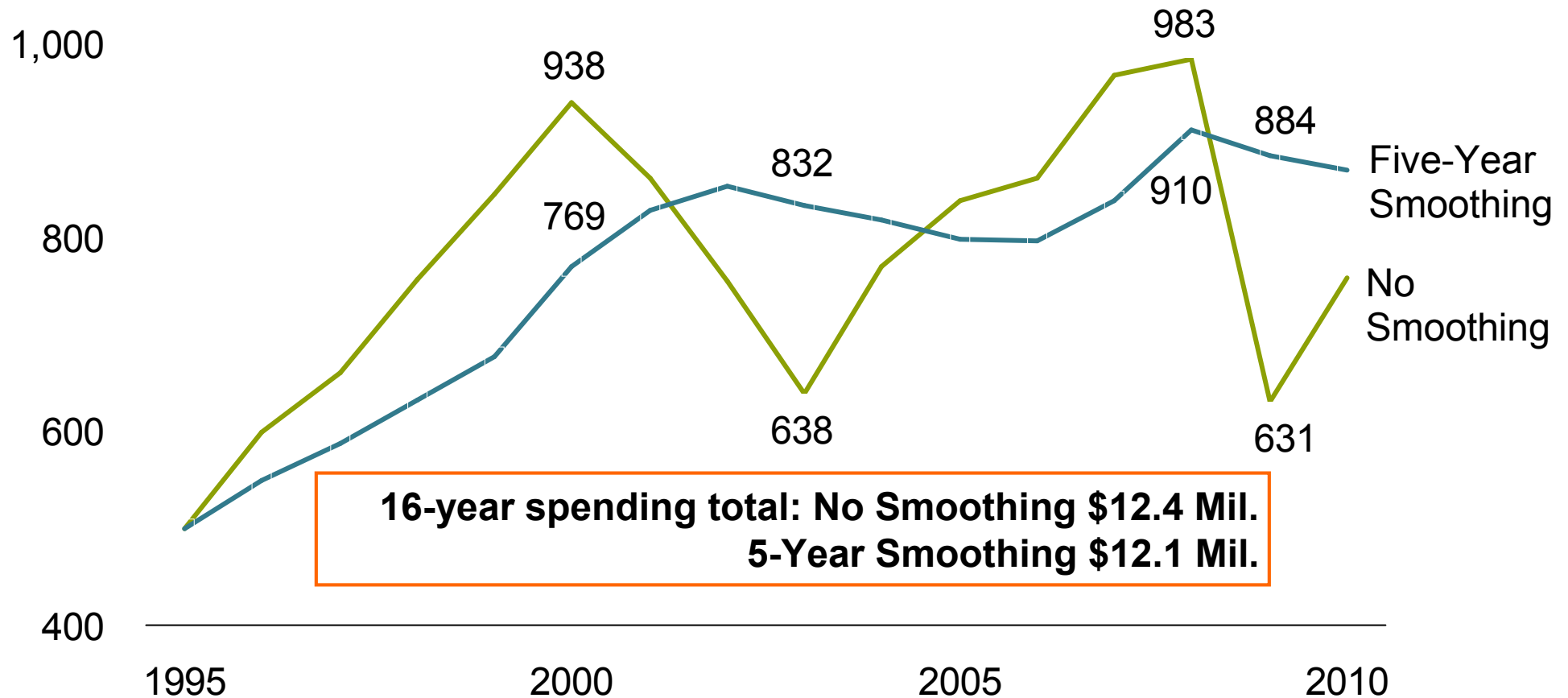
5% Spending, \$10 Million Initial Value
70% Stocks/30% Bonds (US\$ Thousands)



Past performance does not guarantee future results.
See Note on Asset Allocation in Historical Studies in Appendix.

Smoothing Reduces Annual Declines in Distributions

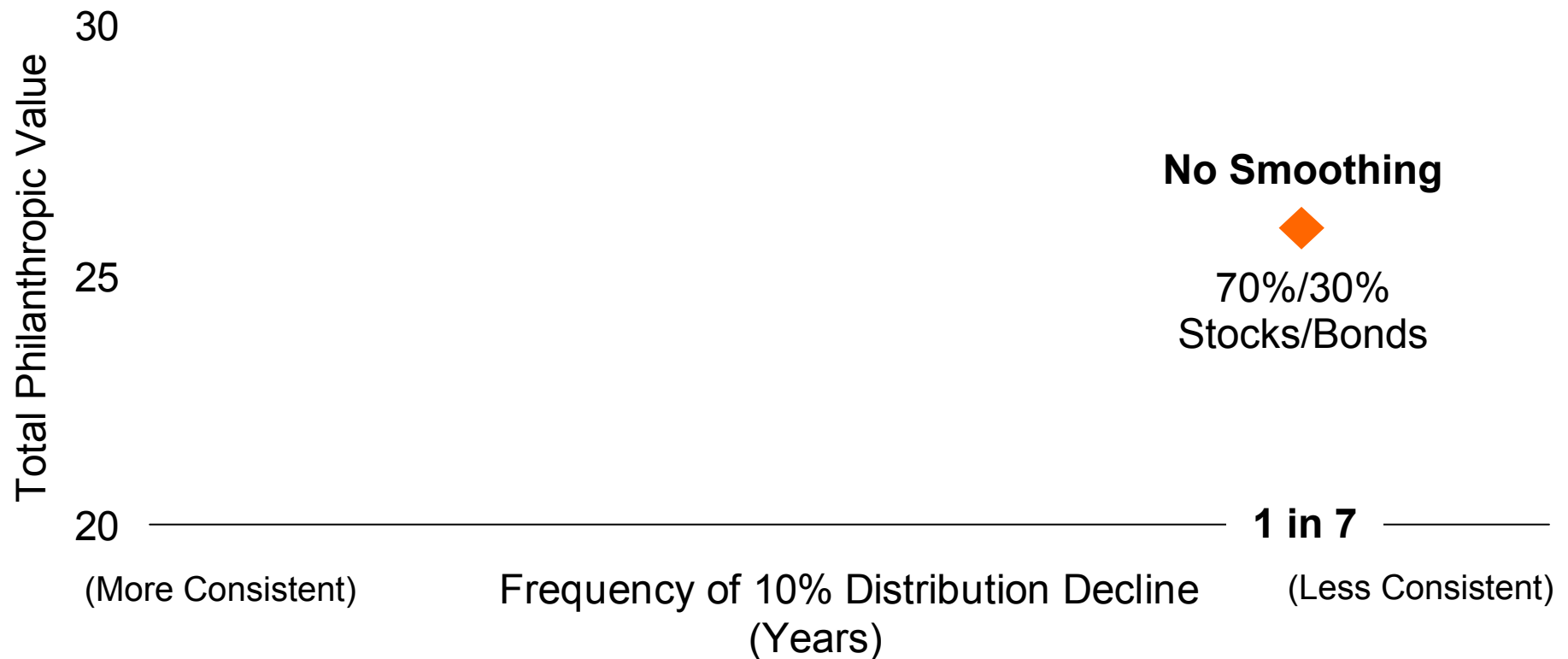
5% Spending, Smoothed, \$10 Million Endowment
70% Stocks/30% Bonds (US\$ Thousands)



Past performance does not guarantee future results.
See Note on Asset Allocation in Historical Studies in Appendix.

Can Smoothing Improve the Asset Allocation Decision?

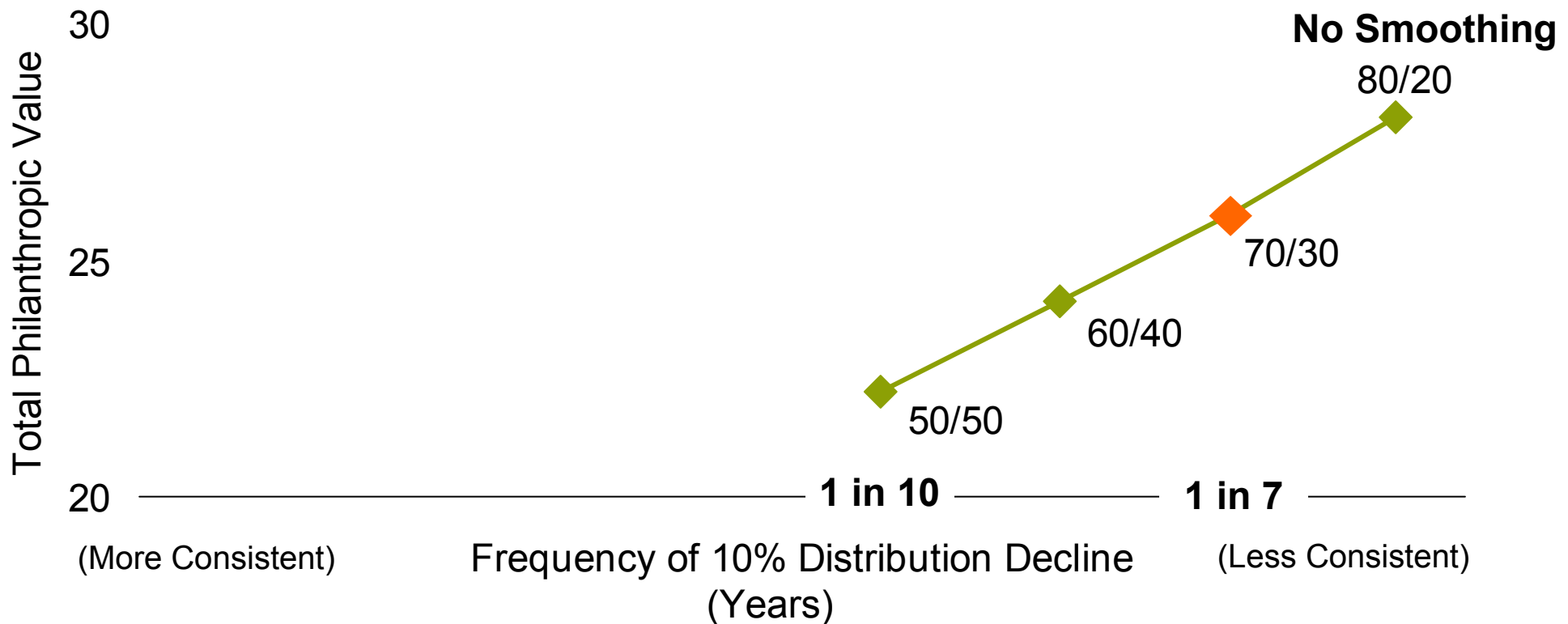
Longevity vs. Consistency, \$10 Million Initial Value 5% Spending After 30 Years (US\$ Millions)



Total Philanthropic Value is measured by real cumulative distributions plus real portfolio remainder. Consistency is measured by probability of 10% or greater decline in distribution. Asset allocations are: 50/50 is 45% Global Stocks/45% Intermediate Taxable Fixed Income/10% REITs; 60/40 is 55% Global Stocks/35% Intermediate Taxable Fixed Income/10% REITs; 70/30 is 65% Global Stocks/25% Intermediate Taxable Fixed Income/10% REITs; 80/20 is 75% Global Stocks/15% Intermediate Taxable Fixed Income/10% REITs. Global Stocks are 35% US Value/35% US Growth/25% Developed International/5% Emerging Markets. See Notes on Wealth Forecasting System in the Appendix of this presentation.

Improving Consistency of Distributions Can Hurt TPV

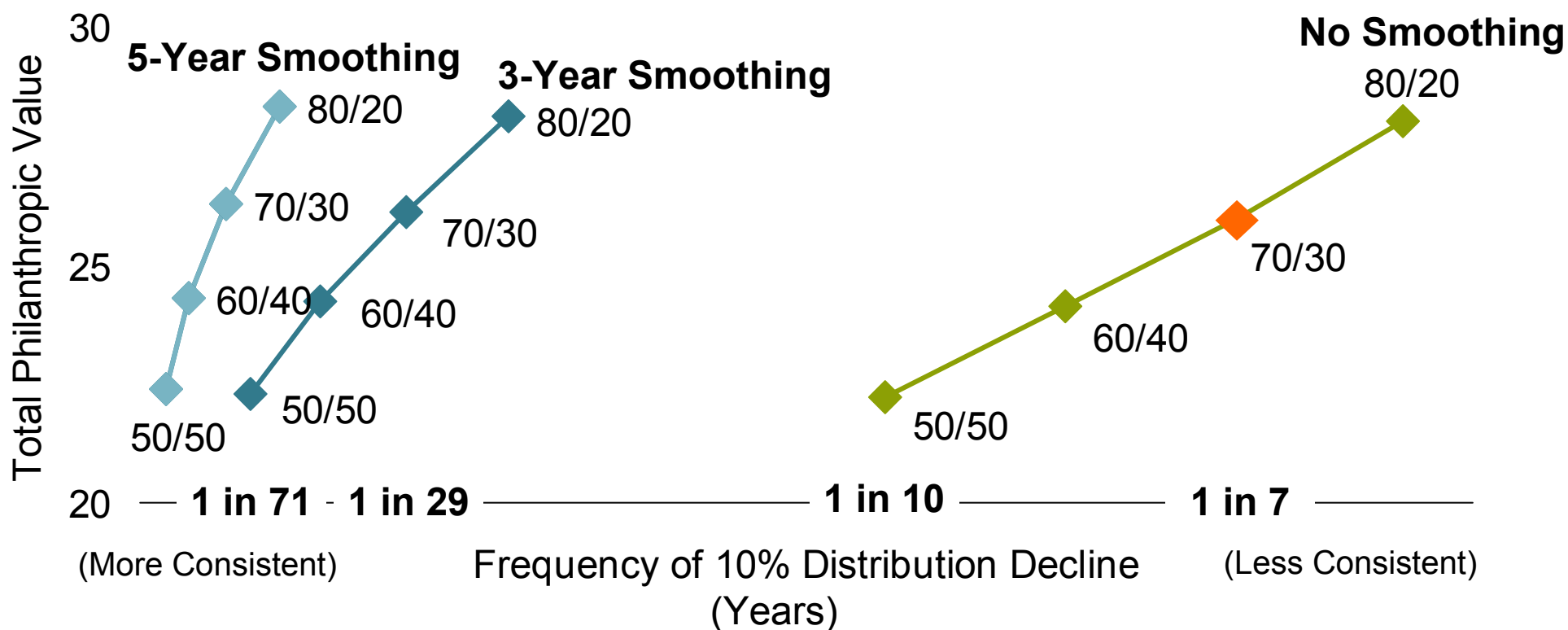
Longevity vs. Consistency, \$10 Million Initial Value 5% Spending After 30 Years (US\$ Millions)



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Even Greater Benefits to Consistency and TPV

Longevity vs. Consistency, \$10 Million Initial Value 5% Spending After 30 Years (US\$ Millions)



Total Philanthropic Value is measured by real cumulative distributions plus real portfolio remainder. Consistency is measured by probability of 10% or greater decline in distribution. Asset allocations are: 50/50 is 45% Global Stocks/45% Intermediate Taxable Fixed Income/10% REITs; 60/40 is 55% Global Stocks/35% Intermediate Taxable Fixed Income/10% REITs; 70/30 is 65% Global Stocks/25% Intermediate Taxable Fixed Income/10% REITs; 80/20 is 75% Global Stocks/15% Intermediate Taxable Fixed Income/10% REITs. Global Stocks are 35% US Value/35% US Growth/25% Developed International/5% Emerging Markets. See Notes on Wealth Forecasting System in the Appendix of this presentation.

Profile #3: Phil and Ann Thropic

Donor Profile

- \$20 million in liquid assets, plus additional assets in real estate
- Age 65 and still working, but retirement not far off
- Past annual gifts have been \$50,000
- Donors are receptive to integrated legacy planning

Objective: Donor commitment of significant gift

Bernstein Framework: Evaluating What You Need Reveals What You Can Give

Lifestyle Spending

Personal Reserve

Core Capital

- Amount to ensure spending needs are met
- Often calculated at 90%–95% level of confidence

- How much do you spend?
- What is your age?
- What is your risk tolerance?

Extra Spending

Children

Grandchildren

Charity

Excess Capital

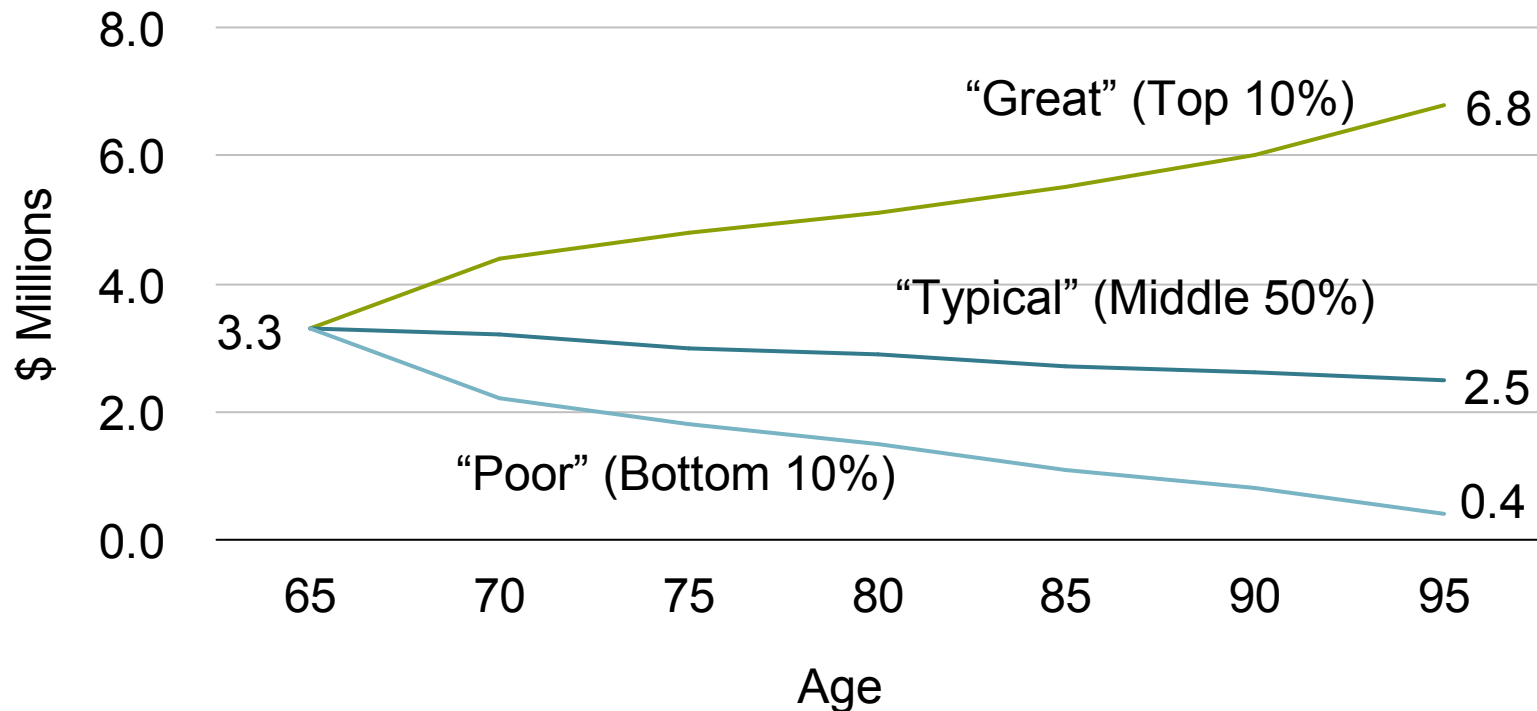
- Amount for expanded opportunities
- Your “gifting capacity”

- How much?
- To whom?
- How quickly?
- How allocated?
- What strategies?

Core Capital Sized for Poor Markets and Long Life

Core Capital: Sized to Be Sustainable in Hostile Markets

\$100,000 Spending, 60/40 Portfolio, Inflation-Adjusted*

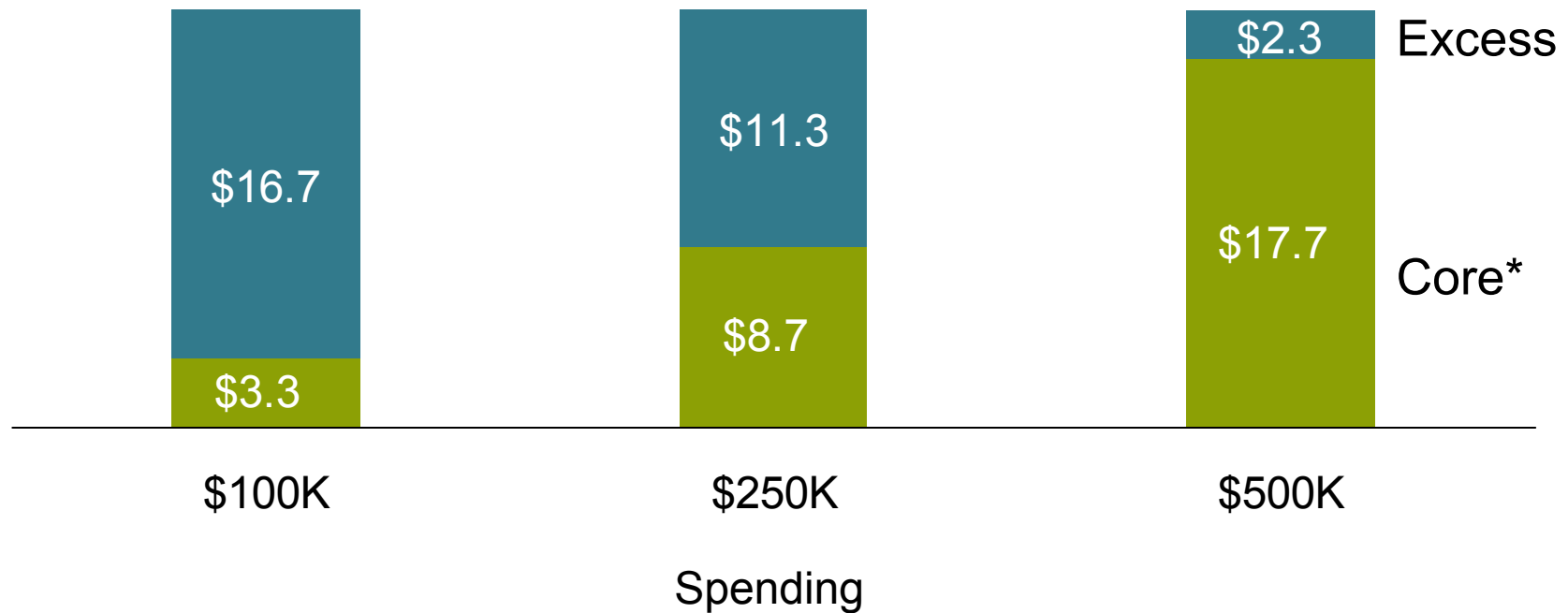


*Annual (after-tax) budgets are grown with inflation; 60% globally diversified equities / 40% intermediate duration municipal bonds

Excess Capital Can Be a Proxy for Gifting Capacity

Excess Capital: What Is Not Needed for Core Spending

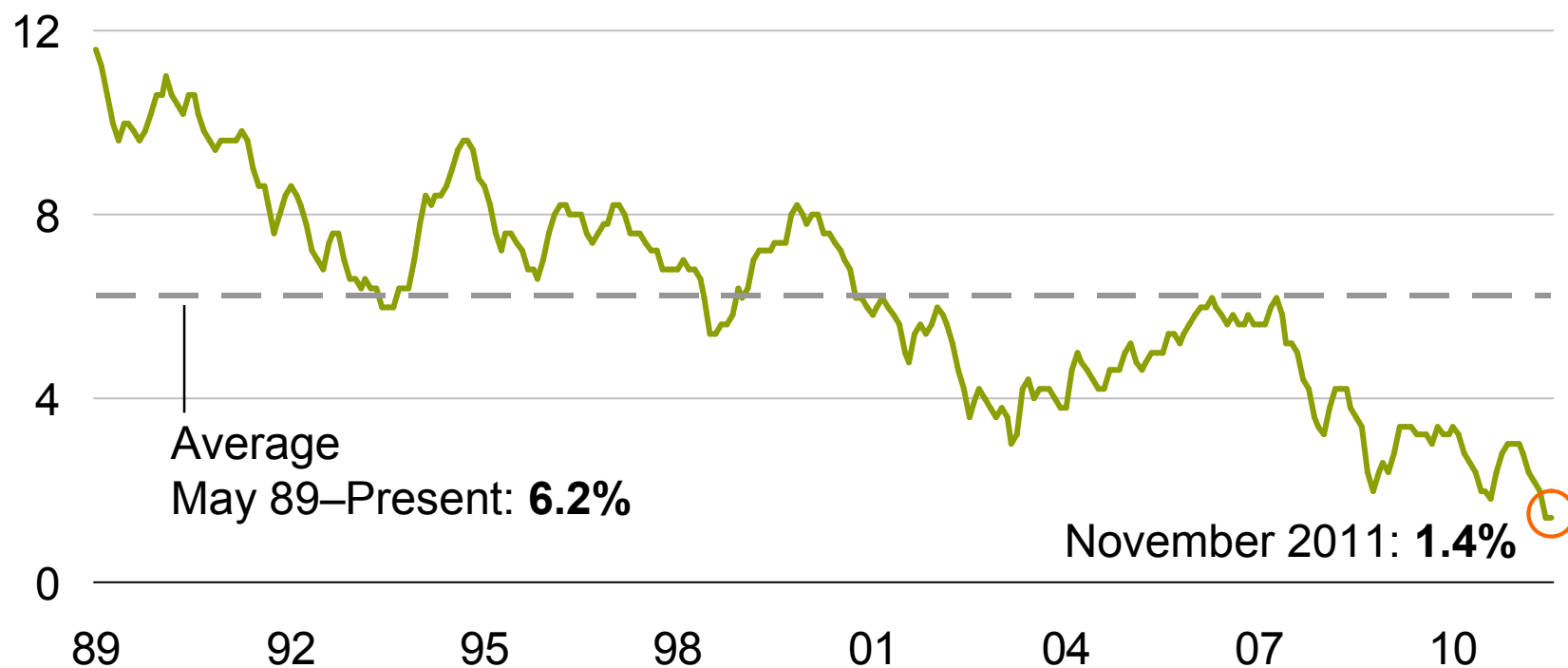
\$20 Million Portfolio, Age 65



*The required size of the core portfolio assumes that spending needs will be met with a 95% level of confidence. Based on Bernstein 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 presentation for further details.

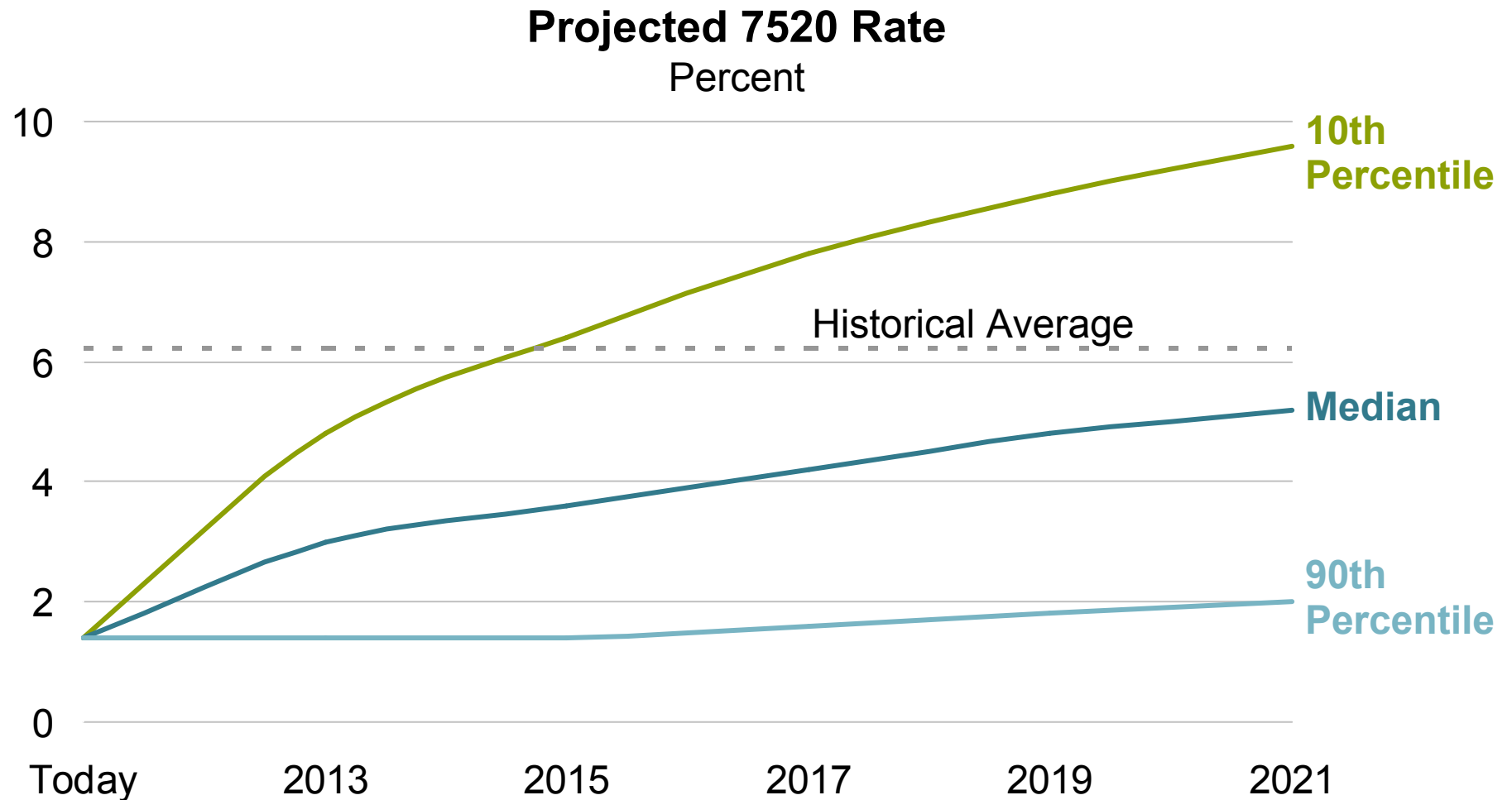
Unique Planning Opportunity Today: Charitable Lead Annuity Trust

Section 7520 Rate



Source: Internal Revenue Service (IRS) and AllianceBernstein

Hurdle Rates Are Likely to Normalize over Time...



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 Wealth Forecasting System for details.

...Making the Cost of Delay Significant Today

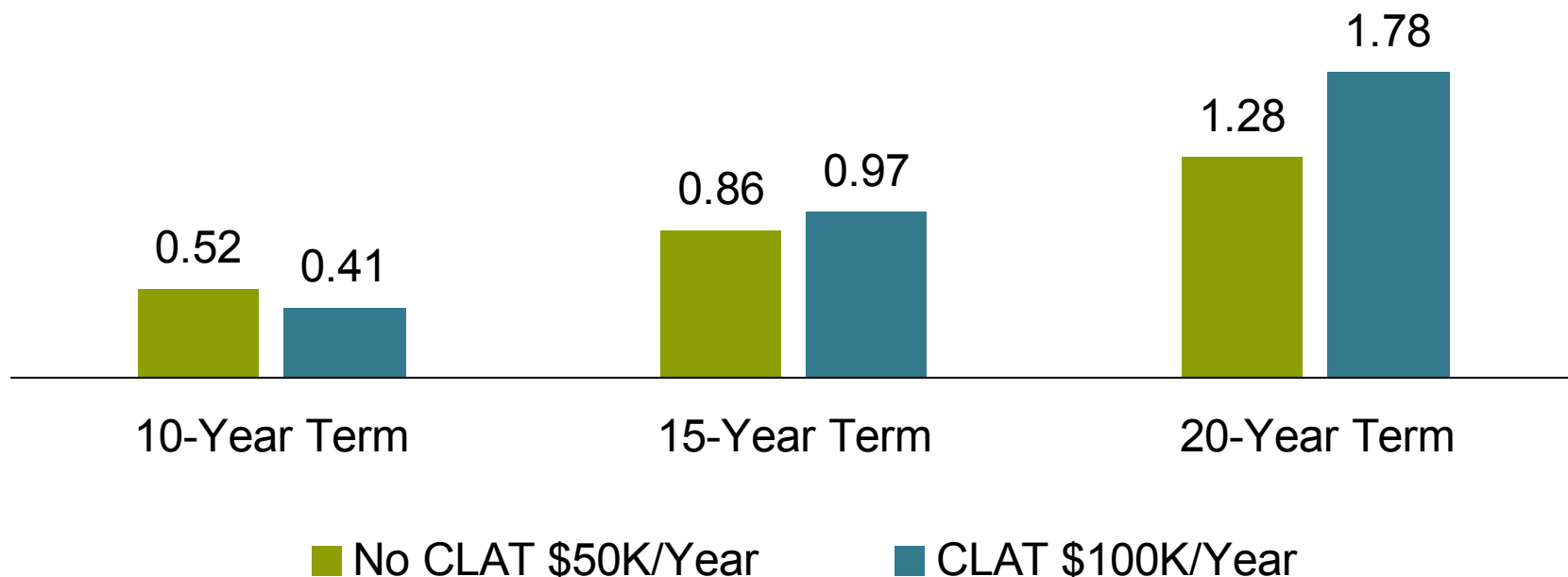
Wealth Transfer per \$10 Mil. CLAT Median—Year 20
\$ Millions, Inflation-Adjusted



Strategies are funded with \$10 million and all assets invested in 100% global equities (35% US value, 35% US growth, 25% developed international and 5% emerging markets). For "Today's Conditions" the CLAT is funded at the November 2011 7520 rate of 1.4%. For "Normal Conditions" the CLAT is assumed to be funded at a 7.2% 7520 rate. 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 Wealth Forecasting System for details.

The Pitch: Double Your Commitment to Charity While Benefiting Children

Benefit to Children: Median Values \$ Millions (Inflation-Adjusted)



Assumed to be "zeroed-out" non-grantor CLATs based on the November-2011 Section 7520 rate of 1.4% with level annuity payments of \$100,000. CLAT funding amounts for 10-, 15-, and 20-year trust terms are \$927,123, \$1,344,531, and \$1,733,908, respectively. Wealth to children under the "No CLAT" scenario assumes that funds that would otherwise fund a CLAT for the term specified are held in the donor's personal account and used to fund annual gifts to charity. The amount remaining after annual gifts to charity is subjected to an estate tax rate of 35%. Funds in the personal account are assumed to be invested in 60% global equities and 40% municipal bonds. Funds in the CLAT are assumed to be invested in 100% global equities. Based on Bernstein estimates of the range of returns for the applicable capital markets over the periods analyzed. See Notes on Wealth Forecasting System at the end of this presentation for further details.

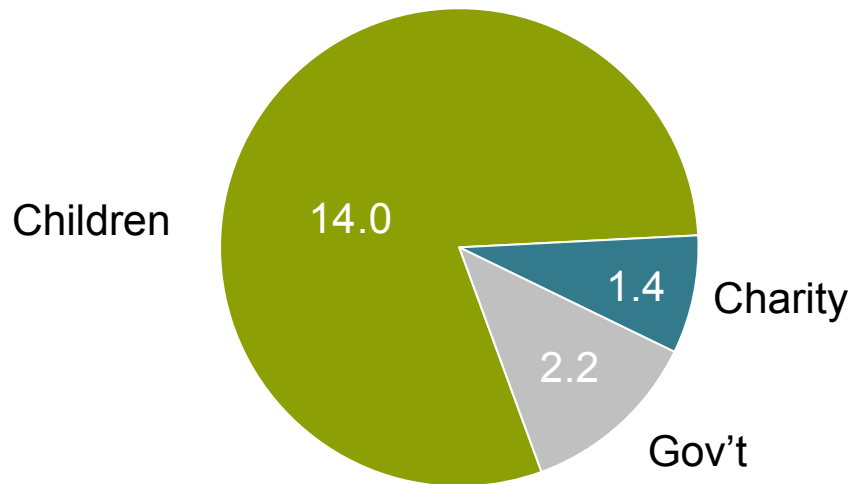
Bringing It Together for the Donor

20-Year Forecast*

Median Values (\$ Millions), Adjusted for Inflation

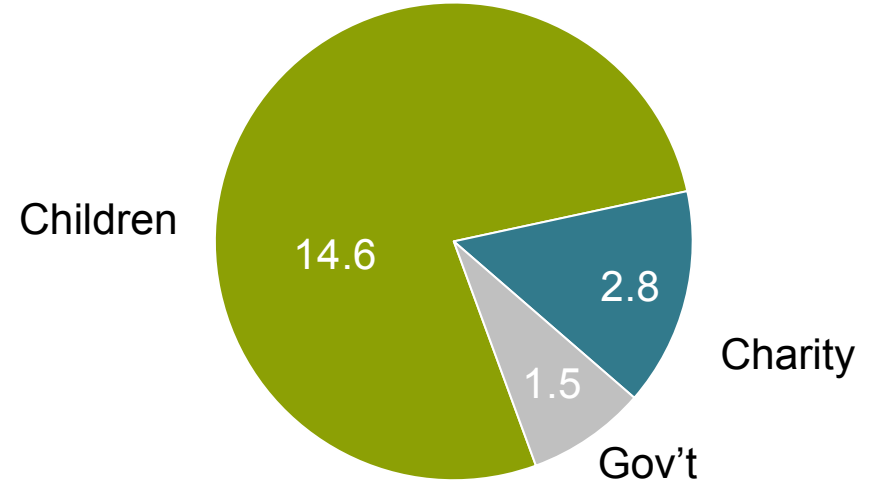
Current Plan

\$50,000 per Year to Charity



New Plan

20-Year CLAT with Level \$100,000 Annuity



*Beginning assets total \$20 million invested in 60% global stocks/40% intermediate duration municipal bonds. Annual spending of \$500,000 is adjusted annually for inflation. The CLAT established under the "New Plan" is a non-grantor trust funded with \$1,733,908, is "zeroed-out" for gift tax purposes using a Section 7520 rate of 1.4% and a level annuity structure, and is invested in 100% global equities. Assumes that estate settles in Year 20 with an applicable estate tax rate of 35% and \$5 million per person (\$10 million per married couple) estate exemption indexed for inflation. Gifts and annuity payments to charity assumed to be invested in 100% global equities. Based on Bernstein estimates of the range of returns for the applicable capital markets over the duration of the analysis. Data do not represent any past performance and are not a promise of actual future results. See Notes on Wealth Forecasting System at the end of this presentation for further details.

How Bernstein Can Help Donor Outreach Efforts

Custom Analysis

- Forecasting tools for development officers and donors
- Integrated wealth and estate planning for complex gifts

Donor Education

- Group presentations
- Quantify benefits of giving opportunities in your marketing material



Appendix

Notes on Wealth Forecasting System

1. Purpose and Description of Wealth Forecasting Analysis

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

2. 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. 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 (%)
Intermediate-Term Diversified Municipals	AA-rated diversified municipal bonds of a 7-year maturity	30
Intermediate-Term Taxables	Taxable bonds with maturity of 7 years	30
U.S. Value	S&P/Barra Value Index	15
U.S. Growth	S&P/Barra Growth Index	15
Developed International	MSCI EAFE Unhedged	15
Emerging Markets	MSCI Emerging Markets Index	20
Single Stock	Volatility: 40%; Dividend: 1.5%; Beta: 1.2	0

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 Markets Projections page at the end of these Notes. In general, two-thirds of the returns will be within one standard deviation. For example, assuming that stocks are expected to return 8.0% on a compounded basis and the volatility of returns on stocks is 17.0%, in any one year it is likely that two-thirds of the projected returns will be between (8.9)% and 28.8%. 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 September 30, 2011. Therefore, the first 12-month period of simulated returns represents the period from September 30, 2011, through September 30, 2012, and not necessarily the calendar year of 2011. A description of these technical assumptions is available on request.

Notes on Wealth Forecasting System

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 Analysis has used the following tax rates for this analysis:

Taxpayer	Scenario	Start Year	End Year	Federal Income Tax Rate	Federal Capital Gains Tax Rate	State Income Tax Rate	State Capital Gains Tax Rate	Tax Method Type
Client	Case #2	2012	2026	See below	See below	6.50%	6.50%	Automatic-Joint Filer
Client	Case #3	2012	2041	See below	See below	6.50%	6.50%	Top Marginal Rates

The federal income tax rate represents Bernstein'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 tax rate generally represents Bernstein's estimate of the top marginal rate, if applicable.

The Wealth Forecasting System uses the following top marginal tax rates: During 2012, federal income tax rate is 35%, and federal capital gains tax rate is 15%. For 2013 and beyond, federal income tax rate becomes 39.6%, and federal capital gains tax rate becomes 20%. The FICA tax for 2011 is 4.2%, and becomes 6.2% for 2012 and beyond. For AMT purposes, federal income tax rate is 28%, and federal capital gains tax rate is 20%.

10. Endowments

The Endowment is modeled as a non-taxable permanent fund bestowed upon an institution to be used to support a specific purpose in perpetuity. The endowment may receive an initial donation and periodic funding from either the personal portfolio modeled in the system or an external source. Annual distributions from the endowment may be structured in a number of different ways, including: 1) an annuity or fixed dollar amount, which may be increased annually by inflation or by a fixed percentage; 2) a unitrust, or annual payout of a percentage of endowment assets, based on a single year or averaged over multiple years; 3) a linear distribution of endowment assets, determined each year by dividing the endowment assets by the remaining number of years; or 4) the greater of the previous year's distribution or any of the above methods. These distribution policies can be varied in any given year.

Notes on Wealth Forecasting System

11. Charitable Lead Trusts

The Charitable Lead Trust (CLT) is modeled as a portfolio that receives its initial funding from the grantor and transfers payments to one or more charitable recipients each year for a specified number of years. The annual payments may be a fixed dollar amount (Charitable Lead Annuity Trust or CLAT) or a percentage of the trust's assets (Charitable Lead Unitrust or CLUT). In the case of a CLAT, annuities may be fixed (the same amount each year), or variable (so long as the present value of the annuity is ascertainable at the time the trust is funded). The annual payment is made first from available cash and then from other trust assets in kind. The trust will pay income taxes on retained income and will receive a charitable income tax deduction for income paid to the charitable recipient(s). Realized capital gains may be treated in one of two ways, as directed: 1) taxed entirely to the trust, or 2) included in the payment to charity and, therefore, deducted from the trust's income, to the extent the payment exceeds traditional income. When the CLT term ends, the remainder, if any, may be transferred in kind to 1) a non-modeled recipient, 2) a taxable trust, or 3) a beneficiary's portfolio. The transferred assets will have carryover basis.

Capital-Market Projections

	Median 30-Year Growth Rate	Mean Annual Return	Mean Annual Income	One- Year Volatility	30-Year Annual Equivalent Volatility
Int.-Term Diversified Municipals	3.4%	3.7%	3.7%	4.7%	7.7%
Int.-Term Taxables	4.5%	4.8%	5.9%	4.9%	9.5%
Equities - U.S. Value	9.6%	11.3%	4.5%	23.3%	20.2%
Equities - U.S. Growth	9.1%	11.4%	3.1%	26.9%	21.8%
Equities-Diversified Int'l - Unhedged	10.0%	12.3%	4.6%	26.4%	21.2%
Equities-Emerging Markets	8.0%	12.3%	4.8%	39.4%	29.5%
Inflation	3.5%	3.8%	3.8%	1.9%	10.7%
Single Stock	4.5%	11.3%	3.1%	38.4%	38.0%

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.
 Based on 10,000 simulated trials each consisting of 30-year periods.
 Reflects Bernstein's estimates and the capital-market conditions of September 30, 2011.

Capital-Market Projections

	Median 30-Year Growth Rate	Mean Annual Return	Mean Annual Income	One- Year Volatility	30-Year Annual Equivalent Volatility
Int.-Term Diversified Municipals	4.9%	5.1%	4.7%	4.3%	8.3%
Int.-Term Taxables	6.1%	6.3%	7.0%	5.2%	9.9%
Equities - U.S. Value	9.5%	11.1%	4.8%	15.8%	18.9%
Equities - U.S. Growth	9.1%	11.2%	3.3%	18.2%	20.5%
Equities-Diversified Int'l - Unhedged	9.5%	11.6%	3.9%	18.0%	19.8%
Equities-Emerging Markets	8.0%	12.0%	3.9%	26.6%	28.1%
Inflation	3.3%	3.6%	3.6%	1.2%	10.1%

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.
Based on 10,000 simulated trials each consisting of 30-year periods.