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AB.N - Q1 2023 AllianceBernstein Holding LP Earnings Call

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PRESENTATION

Operator

Thank you for standing by, and welcome to the AllianceBernstein First Quarter 2023 Earnings Review. (Operator Instructions). At this time, all participants are in a listen-only mode. After the remarks, there will be a question-and-answer session, and I will give you instructions on how to ask questions at that time. As a reminder, this conference is being recorded and will be available for replay on our website shortly after the conclusion of this call.

I would now like to turn the conference over to the host of this call, Head of Investor Relations, Mr. Mark Griffin. Please go ahead.

Mark C. Griffin - *AllianceBernstein Holding L.P. - Head of IR*

Thank you, operator. Good morning, everyone, and welcome to our first quarter 2023 earnings review. This conference call is being webcast and accompanied by a slide presentation that's posted in the Investor Relations section of our website, www.alliancebernstein.com. With us today to discuss the company's results for the quarter are Seth Bernstein, our President and CEO; Kate Burke, COO and CFO; and our Co-Heads of Fixed Income, Scott DiMaggio and Gershon Distenfeld; Onur Urzan, Head of Global Client Group in Private Wealth, will join us for questions after our prepared remarks. Some of the information we'll present today is forward-looking and subject to certain SEC rules and regulations regarding disclosure. So I'd like to point out the safe harbor language on Slide 2 of our presentation. You can also find our safe harbor language in the MD&A of our 10-Q. Under Regulation FD, management may only address questions of material nature from the investment community in a public forum. So please ask all such questions during this call.

Now I'll turn it over to Seth.

Seth Perry Bernstein - *AllianceBernstein Holding L.P. - CEO, President & Director*

Good morning, and thank you for joining us today. The first quarter saw positive returns in both equities and fixed income markets, though equity leadership was relatively narrow and yields in bond markets were volatile. Our global platform generated positive net flows as retail and high net worth investors became more comfortable taking on risk, and were keen to take advantage of higher fixed income yields. Our realized fee rate improved by 4% year-over-year driven by the addition of CarVal. And we executed on several focused growth investments, launching 3 new active equity ETFs, filing for our AB CarVal interval fund and continuing to grow market penetration of our customized muni SMA platform. Let's get into the specifics, starting with a firm-wide overview on Slide 4. Gross sales were $25.6 billion, down $5.7 billion or 18% from the year ago period, excluding last year's large custom target date sale. Firm-wide active net inflows were $1.8 billion or 1% annualized, positive in 2 of 3 channels. Quarter end assets under management of $676 billion declined 8% versus the prior year and were up 5% sequentially. An average AUM of $667 billion was down 11% year-over-year and up 5% sequentially. Slide 5 shows our quarterly flow trend by channel. Firmwide first quarter net inflows were $800 million. Retail gross sales of $16.8 billion were down year-over-year, though improved sequentially, driving net inflows of $1.6 billion amid strong demand for taxable and municipal fixed income, up 15% and 21% on an annualized basis, respectively. Our institutional channel had gross sales of $3 billion, declining from prior quarters, both of which included large custom target-based sales. Net outflows were $2.7 billion. In Private Wealth, gross sales were strong at $5.8 billion, with clients inclined to invest this into money market funds given market volatility. Net inflows were $1.9 billion, now positive 8 of the last 11 quarters. Investment performance is shown on Slide 6. Starting with fixed income. During the first quarter, developed market government bond yields fell in all major markets. Yields remain volatile as investors factored in shifting inflation and growth assumptions. Global developed market treasury returns rose 3.1% as measured by the Bloomberg Global Treasury Index on a hedged basis. AB's fixed income performance improved in all periods. Notably, the percentage of assets outperforming over the 3-year period improved to 83% driven by our flagship global high-yield fund which posted top quartile performance. Totally 75% of our fixed income assets are outperforming over the 5-year period. Our 1-year underperformance continues to reflect our broader positioning in global credit during a period in which the U.S. has outperformed, challenging some peer comparisons. Turning to equities. Global equities were volatile during the quarter as turmoil in the banking sector jolted markets in March. After recovering toward quarter end, the MSCI World Index had advanced by 7.4% in local currency terms. In a reversal of last year's performance patterns, growth stocks outperformed value stocks with the Russell 1000 Growth Index up 14%, while the Russell 1000 Value Index was flat. Our equities performance was generally strong with 1 year improving to 74% as global core and several small-cap strategies outperformed. Three-year performance reverted back to 38% after rebounding in the prior quarter. Our U.S. large cap growth portfolio beat the Morningstar peer group but lagged the Russell 1000 growth benchmark, which remains heavily weighted in mega-cap technology, presenting concentration risk. 73% of our AUM outperformed over the 5-year period. Versus the Morningstar peer group, 68%, 61% and 70% of our equity assets outperformed over the 1-, 3- and 5-year periods, respectively. Now I'll review our client channels, beginning with retail on Slide 7. Gross sales of $16.8 billion in our retail channel declined by $3.8 billion from last year and were up $2.6 billion sequentially. Net inflows were $1.6 billion or 2.6% annualized organic growth, reflecting strong taxable fixed income and municipal demand. The overall redemption rate improved to 25%, the lowest rate in the last 12 quarters. Taxable Fixed income sales more than doubled year-over-year and rose 80% sequentially, led by meaningful acceleration in our American Income Fund. This translated to 15% annualized organic growth in taxable fixed income. Muni sales and flows were also robust, with sales up over strong prior periods and net inflows of $1.4 billion or 21% annualized organic growth. This was the 10th quarter in the last 11 of muni net inflows. As shown in the lower left, we handily outpaced the industry growth rates, gaining market share in the quarter. Sales grew sequentially, and we had net inflows in all regions. U.S. retail grew by 11.5% annualized organically. Notably, AB ranked in the top 2% for cross-border flows for fixed income. During the quarter, we filed for our first interval fund, the AB CarVal opportunistic credit fund, a continuation of an existing multi-strategy private credit hedge fund strategy offered since 2014. Over time, we plan to offer this through U.S. distribution partners to broad third-party retail. Turning to Institutional on Slide 8. First quarter gross sales were $3 billion, well diversified across asset classes, though down substantially from the comparable prior periods, which both saw large custom target date sales. Net outflows were $2.7 billion, concentrated in non-U.S. value strategies. Alternatives and multi-asset demand grew for the 12th consecutive quarter. This asset class now represents 1/3 of our channel AUM having posted a 24% compound annual organic growth rate over the last 3 years. Our pipeline was $13.1 billion at quarter end, essentially flat with the prior quarter. Additions included $1.2 billion from Equitable for our U.S. commercial real estate debt service along with a number of active equity mandates. Equitable's $10 billion commitment split into private alternatives and private placements was approximately 70% deployed at quarter end. Private alternatives continue to represent over 80% of the pipeline's annualized fee base resulting in a pipeline fee rate 3x channel the channel average. During the quarter, we received an upgrade from a large global consultancy for our sustainable global thematic platform, part of our portfolios with purpose, which now stand at $25.2 billion in assets under management. That said, in the month of April, we expect to incur a few large low-fee redemptions totaling about $6 billion at a blended rate of about 6 basis points. These are split between our custom target date and fixed income businesses. Included is the rebalancing of a large custom target date account, for which the vast majority of AUM will remain at AB. As a reminder, we had $16 billion of new fundings in our custom target date business in 2022 and expect to see continued growth over the longer term. Offsetting the vast majority of the revenue impact from these low fee redemptions in April, we were awarded a higher fee $1 billion equity mandate in our U.S. large cap growth strategy, which we expect will fund over the next few months. Moving to Private Wealth on Slide 9. First quarter gross sales were $5.8 billion, down 3% year-over-year and up 41% sequentially. Productivity improved sequentially, and we drove net inflows of $1.9 billion, now positive for 8 of the last 11 quarters. We experienced strong inflows in money market funds, which were elevated during the March banking dislocation. We continue to generate gross sales from liquidity events for which our pipeline of pre-transaction planning remains solid. Our mix continues to shift towards our ultra-high net worth $20 million and over clients, the fastest-growing client segment, which grew at a high single-digit rate this quarter. We had a strong quarter for alternative commitments up 52% versus the prior year period. This quarter included raises in AB's CarVal second clean energy fund. And our proprietary direct indexing strategy grew to $2.5 billion, posting strong annualized organic growth of 40%. I'll finish our business overview with the sell side on Slide 10. First quarter, Bernstein research revenues of $100 million decreased by 15% year-over-year and were essentially flat with the prior quarter. While institutional trading volumes picked up sequentially, they were still generally soft industry-wide. We grew our leading share in research checks, which were up year-over-year and down seasonally as expected from the prior quarter. We launched coverage on 4 global sectors this past quarter and continue to innovate in events, holding our first-ever technology, media and telecom and consumer one-on-one forum with 21 companies and 65 clients participating. Our joint venture with Societe Generale announced last November is proceeding on plan. We continue to expect the transaction to close before the end of 2023, subject to regulatory consultation and approval in several countries, and we anticipate disclosing financial details closer to that time. I'll conclude by reviewing the status of our strategic initiatives on Slide 11. Performance and fixed income improved in every period. Equities remained solid and more than 70% of assets are outperforming over 5 years in both equities and fixed income. First quarter growth was led by private wealth and retail, each of which experienced strong double-digit annualized organic growth in fixed income. We launched 3 active equity ETFs, U.S. low volatility equity, U.S. high dividend and disruptors. In private alternatives, AB CarVal CLO VII raised $420 million. Fundraising for AB CarVal's most recent Clean Energy Fund continues apace with over $1 billion raised and a final close expected in the second quarter. Lower markets versus prior year impacted our financial comparison. First quarter adjusted operating income declined by 21%, adjusted operating margin was 27%, and adjusted earnings in unitholder distributions were $0.66 per unit, down 27% versus the prior year. Finally, I'd like to invite you to tune in to the upcoming inaugural Equitable Holdings Investor Day to be held on Wednesday, May 10, where I will present a view of our longer-term horizon and our partnership with Equitable.

Now I'm pleased to introduce both Scott DiMaggio and Gershon Distenfeld, co-heads of our Fixed Income platform. Scott will take you from here.

Scott A. DiMaggio - *AllianceBernstein Holding L.P. - Co-Head of Fixed Income*

Thanks, Seth. It's a pleasure to be with you today to share with you the key strengths that differentiate AB's global fixed income platform. The key points I want to leave you with today are: we firmly believe that bonds are back with historically attractive yields that offer value to our clients. Our global fixed income offering with a 50-year heritage led by experienced and tenured teams is differentiated among peers, driven by a culture of innovation and market-leading positions in tax-exempt, high-quality global multi-sector and high income as well as our investment-grade strategies. Our investment performance positions us well to garner flows as fixed income demand returns, and we have a clear growth strategy based on building market-leading positions in municipals, income and third-party insurance. All areas we have a proven edge and a right to win. Starting with Slide 13, we're a global platform with $263 billion in AUM, well diversified by channel, strategy and client domicile. We are proud of our tenured team of investment professionals who have an average of 25 years in the industry and 17 at AB. Our team of 38 portfolio managers covers the full spectrum of global fixed income sectors and subsectors and are supported by experienced analysts, traders and APMs with significant expertise across the industry. In addition, we have over 130 technology experts to help us to maintain an edge in supporting our portfolio managers and our clients. We think bonds are back as entry points are extremely attractive following the aggressive interest rate tightening cycle by the Fed and other global central banks, a cycle which it should be acknowledged resulted in some of the worst performance across fixed income in 40 years. Slide 14 shows evidence of recent strengthening demand. We started to witness a turning tide in the fourth quarter of 2022, with a clear return to positive flows in the first quarter of this year, driven by both our retail and our private wealth channels. Our American income strategies drove strong inflows in the first quarter with investor allocations responding to these higher interest rates. The following factors differentiate our offering. We have developed a highly integrated investment and risk management approach, driven by an experienced and tenured investment team. We have demonstrated a multi-decade culture of innovation, which we're excited to highlight for you. We have a successful track record developing and building scale in a range of products with market-leading positions in tax exempts, both mutual funds and SMAs, income strategies, which include our uniquely successful barbell approach to balancing rate and credit exposure and our multi-sector high-income platform, investing across investment grade, high yield and emerging markets. Across these areas, we have deep experience and knowledge, structured and tailored separate accounts, whether they be global multi-sector, investment-grade, high-yield or emerging markets, we have a franchise with enduring capabilities. A hallmark of AB's fixed income platform is a culture of and focus on innovation, allowing us to better identify sources of alpha for our clients, leading to enhanced risk-adjusted returns. Innovation has allowed us to introduce new products and services for our clients, capturing evolving market opportunities. This year, we're excited to celebrate the 30th anniversary of one of our groundbreaking multi-sector strategies, the American Income portfolio. This, alongside global high yield has defined multisector investing offshore. The marriage of quantitative and fundamental research, combined with technology has been a powerful combination, enabling improved performance for clients and a better client experience. This slide contains just a few highlighted examples among a larger list. PRISM, our credit research database improves our decision-making on individual issuers and makes those credit recommendations available to all applicable accounts. We have continued to evolve the PRISM platform and will soon be launching Version 3.0, upgrading our ESG analytical capabilities across portfolios. AB Alpha labs our hub for quantitative intelligence synthesizes our quantitative model output and makes it readily available to our portfolio managers, analysts and traders in real time. Alpha, our liquidity aggregator provides us a real-time view of the entire bond market and the trading levels of individual issues, enabling client liquidity needs to be met. All of these imports are processed inside our patented Abbie optimizer, which includes our virtual assistant Abbie Chat. This next-generation portfolio construction platform quickly and efficiently automates our trade construction, increases our speed of investment decisions and execution. The interoperability of these tools and systems improves the client experience and has emerged as a powerful and transformative competitive advantage for AB. In this spirit of innovation, we are excited to have created a suite of systematic fixed income offerings, led by our systematic investment grade offering, which marries our fixed income technology with our quantitative research, we will have a 3-year track record in June. With top quartile performance, we believe this will be a compelling offering to a large addressable asset pool. The product offers low correlation to traditional strategies, hence, good diversification and is seeing increased interest from prospects. On Slide 17, we show the rationale behind our barbell approach used in our American Income portfolio and other strategies to provide an enhanced core bond allocation. With almost a 30-year track record, American Income is designed to provide attractive income while balancing 2 major risks in fixed income, duration or interest rate risk and credit. Government and credit bonds rarely underperform at the same time. In fact, less than 10% of the time in recent years. This lack of negative correlation tends to occur during periods of heightened inflation volatility like 2022, something we expect to see less of going forward as central banks bring inflation under control. We continue to believe in the benefits of diversifying high-quality bonds with the strategic allocation to markets such as high yield and emerging markets to enhance income and dampen interest rate risk. A second element of our franchise is our multi-sector approach. Simply put, it is very rare that one bond sector leads all the time. Sector leadership changes, which is why high yield, securitized and emerging markets can help provide a diversifying balance against just government bonds. And of course, our culture of collaboration is key. Since most of our assets reside in multisector product offerings, we don't bolt-on asset classes, rather the various teams work in partnership to achieve these client objectives. On Slide 18, we show our relative performance of our key strategies over time. In retail, our global funds showed strong 3-year performance versus peers with global high-yields diversified approach, including allocations to investment grade and securitized securities providing outperformance. Our muni performance has consistently been very strong. In institutional, while we have a number of strategies available to clients, we have seen particularly competitive performance in Global Core and Core Plus, high-yield, both broad market and short duration and in emerging markets, dollar-denominated sovereign and corporate debt.

Now I'll turn it over to Gershon to discuss our growth strategy.

Gershon M. Distenfeld - *AllianceBernstein Holding L.P. - Co-Head of Fixed Income*

Thanks, Scott. It's a pleasure to be with everyone this morning. Looking forward, our fixed income growth strategy resides primarily on 3 pillars: munis, income and insurance, while at the same time, maintaining an unwavering commitment across the breadth of our fixed income platform. Let's start with munis, where we have generated strong organic growth over the last 5 years, driven by our market-leading performance, product innovation and a scalable technology. We are focused on becoming a top 5 provider of municipals through accelerating the build-out of our next-generation solutions-oriented investment platform, expanding our current best-in-class investment performance, customization and tax optimization, all attributes that have led to strong market share growth in recent years, which we are confident we can extend. With over 10 consecutive years of organic growth, our Muni SMA business has grown to over $16 billion of assets under management, led by muni tax aware and including high-quality muni income and custom muni. We also believe that we can become a top 3 provider in SMAs. Finally, we are very excited about our new custom muni partnerships with multiple national and independent broker-dealers as well as RIAs. Let's turn to our second pillar, our income franchise. We plan to continue to capitalize on our existing brand recognition and 30-year track record managing income strategies. As flows come back into fixed income, we expect investors to continue to be attracted to our 3-decade track record of delivering superior investment results for income investors. While 2022 was a challenging year, performance-wise, as Scott alluded to, our 3-year relative numbers are strong with a key product like global high yield in the top quartile. We are focused on matching our APAC market share success in U.S. and European retail, diversifying our product offering and presence in key distribution channels. Our existing income capabilities give investors product offerings across the term structure of interest rates, providing both short and intermediate duration strategies with the ability to focus on specific regional services or global options. Our newly launched AB Tax-aware ETF, symbol: YEAR , the first potentially in a series, will also help us continue to build our market share in this category. We believe we can substantially grow AUM in this franchise over the course of time. And finally, our third pillar, insurance. We are focused on becoming a top 10 insurance solutions provider for the insurance sector through all the following: leveraging our substantial expertise with our partner Equitable for whom we have been addressing insurance solutions for nearly 40 years. An under allocation to fixed income across about $4 trillion in addressable GA assets, coupled with highly favorable rates, opened a unique opportunity for our insurance-sensitive investment expertise. Organic growth will be led by enhancing existing infrastructure, expanding advisory solution capabilities and increasing noncore and satellite investment offerings. Our recently enhanced private alternative capabilities through the CarVal acquisition will be an important partnership in realizing our insurance growth ambitions. This may be supplemented through inorganic growth as we continually evaluate strategic partnerships and opportunistic focused acquisitions. In summary, we believe that bonds are back with higher yields providing an attractive entry point. We have a differentiated offering, combined with a culture of innovation with market-leading positions in key sectors that we are focused on extending. Our investment performance positions us well to garner flows as fixed income demand returns. And finally, our growth strategy is based on building market-leading positions in municipals, income and third-party insurance. All areas we have a proven edge and a right to win.

Now I will turn the call over to Kate, who will review the financials. Kate?

Catherine Cooney Burke - *AllianceBernstein L.P. - COO & CFO*

Thanks, Gershon. Let's start with the GAAP income statement on Slide 21. First quarter GAAP net revenues of $1 billion decreased 7% from the prior year period. Operating income of $215 million decreased to 13% and operating margin of 20.1% decreased by [460 basis points] (corrected by company after the call). GAAP EPU of $0.59 in the quarter decreased by 32% year-over-year. I'll focus my remarks from here on our adjusted results, which remove the effect of certain items that are not considered part of our core operating business. We base our distribution to unitholders on our adjusted results, which we provide in addition to and not as a substitute for our GAAP results. Our standard GAAP reporting and reconciliation of GAAP to adjusted results are in our presentation appendix, press release and 10-Q. Our adjusted financial highlights are shown on Slide 22, which I'll touch on as we talk through the P&L shown on Slide 23. On Slide 23, beginning with revenues, net revenues of $833 million decreased 8% versus the prior year period and were up 4% sequentially. Base fees decreased 8% versus the prior year period as 11% lower average AUM was driven by market declines. The first quarter fee rate of 40.3 basis points was up 4% year-over-year, driven primarily by the addition of higher fee rate Carval based fees and down 3% sequentially, primarily reflecting the $6.5 billion low-fee CRS funding late in the fourth quarter and a mix shift to fixed income from equities. We expect a modest recovery in the fee rate in the second quarter based on mix and timing of the expected low fee target rate redemptions. First quarter performance fees of $33 million declined by $12 million from the prior year period due to lower real estate equity fees, partially offset by higher fees on private credit services. Given current market conditions, we continue to see full year 2023 performance fees tracking roughly in line with the prior year level. First quarter revenues for Bernstein Research Services decreased 15% from the prior year period, driven by lower customer trading activity in the U.S., Europe and Asia due to the prevailing macroeconomic environment. The other revenues line of $63 million is comprised primarily of dividend and interest revenue, which at $46 million increased by $39 million year-over-year, reflecting the higher interest rate environment. Netting against this shown on the expense line and adjusted revenues is interest expense associated with our private wealth brokerage clients. Interest expense of $28 million increased year-over-year due to higher interest rates and was down $6 million sequentially. As our mix shifts gradually towards ultra high net worth, we modified our interest payment formula this year to align interest paid declines more closely with market rates during a period of rising rates. We remain very competitive on the cash rate we offer to our clients. Moving to adjusted expenses. All in, our total first quarter operating expenses of $608 million decreased by 2% year-over-year and were up 7% sequentially. Total compensation and benefits expense declined by 5% from the prior year period, reflecting lower AUM-driven revenues and performance fees, offset by higher compensation ratio of 49.5% of adjusted net revenues as compared with 48% in the prior year period. Lower incentive compensation reflected lower AUM, partially offset by higher base compensation driven by an increase in average headcount. In the first quarter, we onboarded approximately 280 previously outsourced India staff to gain efficiencies. Excluding this and the CarVal acquisition, headcount declined year-over-year, reflecting the previously announced 4% reduction in February of 2023. Given market conditions, we continue to believe that our full year 2023 compensation to revenue ratio will trend towards the higher end of the historical 47% to 50% range. We plan to accrue at a 49.5% compensation ratio in the second quarter and may adjust throughout the year as conditions change. Promotion and servicing costs decreased by 2% from the prior year period and sequentially. Versus the prior year period, higher T&E and firm meetings were offset by lower trade execution and clearance and transfer fees. Sequentially, T&E and marketing expenses declined. We continue to expect full year promotion and servicing spend to increase in the low single digits. G&A expenses declined 1% in the first quarter versus the prior year period and were down 4% sequentially. Versus the prior year period, lower portfolio services and related expenses and favorable foreign exchange translation offset higher technology spend and professional fees. The sequential decline was driven by lower portfolio services related expenses, technology-related expenses and professional fees. For the full year, we continue to target G&A growth below inflation levels, up low single digits. Interest expense on borrowings increased by $12 million from the prior year period and $5 million sequentially, reflecting higher interest rates and higher balances. First quarter operating income of $225 million decreased by 21% versus the prior year period and was down 3% sequentially. First quarter operating margin of 27% was down [450 basis points] (corrected by company after the call) year-on-year. As outlined in the appendix of our presentation, first quarter earnings exclude certain items, which are not part of our core business operations. In the first quarter, adjusted operating earnings were $10 million or $0.07 per unit above GAAP operating earnings due primarily to acquisition-related expenses, including CarVal intangible amortization. The first quarter effective tax rate for AllianceBernstein L.P. was 5.3%. Our guidance for the effective tax rate in 2023 remains approximately 5.5% to 6%. We continue to expect the Nashville relocation will be accretive for the full year 2023, with compensation-related savings more than offsetting increased occupancy costs. Stepping back, I'm proud of the engagement across our organization as we continue to execute a focused set of our key growth initiatives while concurrently keeping a close watch on our expenses. We continue to manage the business conservatively as the outlook for financial markets remains clouded by continued macroeconomic uncertainty. As Seth mentioned, we look forward to providing you with a meaningful insight into our trajectory over the coming years at the upcoming Equitable Investor Day on May 10.

Now we are pleased to answer your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And at this time, I would like to remind everyone in order to ask a question, please press # and the number 1 on your telephone keypad. Please limit your initial questions to 2 in order to provide all callers the opportunity to ask questions. You are welcome to return to the queue to ask follow-up questions. And our first question comes from the line of Craig Siegenthaler with Bank of America.

Craig William Siegenthaler - *BofA Securities, Research Division - MD and Head of the North American Asset Managers, Brokers & Exchanges Team*

Good morning, everyone. And thank you for the additional details on the fixed income business from Scott and Gershon. We found that helpful. But sticking with those disclosures. On Slide 14, you highlight that retail and private wealth are leading the migration back into fixed income and not the institutional channel. Why is that? And when do you expect the institutional flows to pick up?

Onur Erzan - *AllianceBernstein Holding L.P. - Head of Global Client Group & Head of Bernstein Private Wealth*

Thanks for the question. You're absolutely right. In terms of the higher net growth channels have been our Asia Ex-Japan franchise with taxable fixed income as well as our U.S. retail and private wealth business. On the institutional side, we have seen an uptick in the demand for U.S. high yields and that kind of played into the sales and the pipeline. We continue to see strong demand in credit and U.S. high yields. Obviously, it's hard to predict all the terminations. So, hard to be very precise on the net flows. But we are pleased with the momentum in the client dialogue around global credits as well as U.S. high yields in the coming quarters.

Scott A. DiMaggio - *AllianceBernstein Holding L.P. - Co-Head of Fixed Income*

Onur -- if I can -- it's Scott. If I can just add to that. I think the other trend we did see in 2021 was more of the money that left from retail, whether that be U.S. retail or offshore retail. So I think that cohort was under-risked or under weight of fixed income. And I think that's the first flow that we've started to see back in the last 5 or 6 months. On the institutional side, we continue to see steady inflows from defined benefit plans who are in the process -- or many are in the process of de-risking. But we just have not seen that cohort de-risk in '21. So I just don't think there's as much money that's going to come back to us as a result of that.

Craig William Siegenthaler - *BofA Securities, Research Division - MD and Head of the North American Asset Managers, Brokers & Exchanges Team*

And then just honing a little bit on American Income. You've had some success there in early 2023. I know different geographies can really move that fund. So I'm wondering what client geographies are driving that ramp in net inflows? And is it Asia Ex-Japan?

Gershon M. Distenfeld - *AllianceBernstein Holding L.P. - Co-Head of Fixed Income*

It is... Oh, I'm sorry. Onur, go ahead.

Onur Erzan - *AllianceBernstein Holding L.P. - Head of Global Client Group & Head of Bernstein Private Wealth*

Onur again, and Gershon, please chime in. Absolutely, you're right. Our main engine behind AIP has been Asia ex Japan, Hong Kong coming back very strong, and we have definitely benefited from that in Q1 as we have done over multiple cycles. And on the broader taxable fixed income side, we are getting some demand in Europe as well on the fixed maturities side. So that's another encouraging sign. Those are the few things I would highlight. But Gershon, please add.

Gershon M. Distenfeld - *AllianceBernstein Holding L.P. - Co-Head of Fixed Income*

Yes. I would just add that what's encouraging to us is this is the first time we've been -- I've been managing this fund for 2 decades, and we've been running it for 3 decades. I can't remember another time when there was this type of volatility where we didn't see significant outflows. We saw it certainly in the global financial crisis, even before that in the telecom crisis of '02 and the European debt crisis, the taper tantrum, COVID. And this is really the first time where things were stable to somewhat positive. And I think we can attribute that to the theme we spoke about earlier of bonds are back. Bonds are back is not some short-term trading idea, but it's a realization that levels have gotten to the point where all-in yields are likely to produce superior total returns over the next few years, and people are taking a longer-term view towards allocating to that. So if there's any type of short-term volatility, it's not the first place that our investors are thinking of reducing their exposure.

Operator

And our next question comes from Alex Blostein with Goldman Sachs.

Alexander Blostein - *Goldman Sachs Group, Inc., Research Division - Lead Capital Markets Analyst*

I was hoping to touch on the private markets for a second. There's been clearly significant dislocation in the banking land. You guys have a fairly sizable CRE lending platform. So maybe talk a little bit about the opportunities you guys see to lean into that and perhaps curious to maybe better understand with Scott and Gershon on the call, how the private credit platform as a whole between corporate and CRE is incorporated in fixed income? And to what extent could that create an incremental benefit as institutions are clearly still kind of shifting to allocations out of liquid into private market in fixed income.

Seth Perry Bernstein - *AllianceBernstein Holding L.P. - CEO, President & Director*

Alex, it's Seth. Let me give you a little sense of private alts. It is certainly true that from a fundraising perspective, we're seeing more headwinds as I think other firms have noted in their investor conferences. What I would say to you is the following, and I'll touch on commercial real estate as part of it, but separately. What we do see is that while originations are slower in our middle market lending business, commercial real estate and others, we're seeing a whole lot less competition, and we see better structure, better pricing opportunities. So this could be a very strong year from an origination perspective in terms of the quality of the assets that we're seeing. I would also add, Alex, that those same factors, lower M&A activity higher interest rates have actually slowed repayments as well. So while flows new issue -- I'm sorry, new origination flows may be slower, so are redemptions. So it hasn't really impacted us on a net AUM basis, which I think is an important attribute. With regard to commercial real estate, as you know, we do have roughly $10 billion U.S. commercial real estate debt business. We're a senior lender. Commercial is a pretty -- it's less than 1/3 of the business as we currently have it structured. We have a pretty strong equity cushions under it, and we've seen certainly some needs in some of that portfolio. And I suspect we'll see more of that as CRE continues to experience rougher sledding with respect to refinancings. So the quality has remained pretty strong for us. And when we look at where we are, given that we're -- in most of our strategy is not levered, we have the time to restructure what we do have, and we're pretty happy with the quality of the assets that we've underwritten to date. But we're not delusional. We know that there will be more challenges in that sector going forward. But let me turn it over to Gershon.

Gershon M. Distenfeld - *AllianceBernstein Holding L.P. - Co-Head of Fixed Income*

Thanks, Seth. And Alex, I would add that we've seen a much greater convergence between the public and private markets over the -- just the past 2 or 3 years. Don't quote me on these exact numbers, but something like prior to 2020, there was one deal of greater than $1 billion in the private credit market. And last year, it was something like 26%. And that's just illustrative of the fact that the public investors -- companies have the choice now to go either public or private, and the 2 markets are really overlapping a lot more than they ever had. As a result, we are looking at new opportunities that our teams are working closer together. Our public and private teams are working closely together, obviously, with the right wall for a nonpublic information perspective, but we're working closely together on more innovative solutions for our clients that we hope to bring to market. I'd also say that our engagement with insurance companies in general is more holistic than it's been, and we're having just more detailed conversations around how to best invest across the whole swap of public and private markets.

Alexander Blostein - *Goldman Sachs Group, Inc., Research Division - Lead Capital Markets Analyst*

Got you. Great. My quick follow-up for Kate, just around the fee rate. You mentioned the fee rate came down in the first quarter as we saw, given the $6 billion outflow that you highlighted in April, it sounds like it's a low-fee mandate. So I think you said 6 basis points or something like that. How should we think about the fee rate into the second quarter, maybe keeping like the markets flat from here?

Catherine Cooney Burke - *AllianceBernstein L.P. - COO & CFO*

Yes. Thanks for the question. I would expect a modest recovery in the fee rate in the second quarter. you'll see a likely positive second quarter versus first quarter asset mix, primarily due to both the timing of the equity markets increasing in the first quarter. And then we'll get the mix benefit with the fixed income and CRS redemptions that you highlighted there as well as continued growth, we believe, in the higher fee private alternative space we have there. So for the full year, I think we're still saying we would predict the full year to reflect a positive mix of them that will continue to kind of grind higher over time, recognizing there will be some volatility based on these large mandates coming in and out.

Operator

And your next question comes from the line of Bill Katz with Credit Suisse

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William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

I appreciate the extra discussion. Maybe to shift gears a little bit. Seth, you mentioned that CarVal launched an interval fund. I was wondering if you could maybe help explain -- size it, what distribution channels it's in and what the outlook for that might be as well as any incremental products on the other side of that?

Seth Perry Bernstein - *AllianceBernstein Holding L.P. - CEO, President & Director*

Sure. Let me do, and Onur, I think, will step in and talk a little bit about the distribution strategy around it. This is an existing CarVal effectively credit hedge fund that they've been running for years with a very attractive track record. We actually haven't launched yet, we filed for it. So just to be clear, it's not there. It's total size is in the several hundred million dollar range. And let me turn it over to Onur as to our expectations from a distribution perspective.

Onur Erzan - *AllianceBernstein Holding L.P. - Head of Global Client Group & Head of Bernstein Private Wealth*

Thanks, Onur here again. Yes, this strategy has been in existence since 2014. It existed under the opportunistic credit fund category. So with the fund filing, we're going to convert it an internal fund format that allows us to expand the distribution outreach with the accredited investors, reducing the minimum investment size. First channel, we're going to go ahead with is our private wealth channel, which, as you know, is a well-established track record of scaling private credit strategies with $10 billion in our private wealth books. And next, we're going to expand into our U.S. retail partners, particularly leveraging strong penetration with affluent and high net worth oriented advisers that today use other strategies like our muni portfolios. So that's going to be our first wave of distribution opportunities looking into third and fourth quarter, most likely.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Okay. And then just -- I don't know if there's going to be too much detail on this call, but I'm sort of curious if you could sort of unpack the other revenue and other expense line a little bit and maybe bifurcate between sort of AllianceBernstein balance sheet impact versus the private wealth cash. And within the private wealth cash, any metrics here in terms of what the size is, what percentage of client AUA it is and how to think about deposit betas underneath that.

Catherine Cooney Burke - *AllianceBernstein L.P. - COO & CFO*

I'll take a start with it then, if Onur wants to add any more color on the private wealth side. What you saw in the first quarter on the interest rate expense, we did obviously have higher borrowings in the first quarter versus '22. That's somewhat of a timing issue as well. The first quarter tends to be higher just from how our cash flows go through the year, but there is obviously higher interest expense related to that. We have a strong line of credit across a diversified group of large global banks as well as a line with Equitable. And so ultimately, we feel very -- still that we have a lot of room, and our balance sheet still remains substantially underleveraged to their -- in terms of the interest income and interest expense line there, that was largely, as I mentioned in my remarks, a decision around our ultra-high net worth and our private wealth business about how we were managing our lending facilities with them, making it more in line with the standard norm and recognizing we're in a rising interest rate environment so that it follows that those trends better. Anything you'd like to add there, Onur?

Onur Erzan - *AllianceBernstein Holding L.P. - Head of Global Client Group & Head of Bernstein Private Wealth*

No, that's great, Kate. Yes, the net interest spread on our cash business in private wealth went up. So that's the positive. And the only connection I would make is, obviously, that partially offsets the deterioration you have seen in the fee rate, right? So you are making money on cash, and that's partially offsetting the decline in the fee rate for managed solutions. And the other thing I would say is, in most of the cases, our clients don't leave cash balances for very long, and they typically put that money into work, whether it's idle cash or money market funds into higher-yielding strategies, which then gets a pretty nice lift in terms of the revenue we generate from our private wealth business. So we are pretty pleased with the performance of our overall cash franchise, whether it's the cash in the private wealth as well as the money market business.

Operator

(Operator Instructions) And again, if you would like to ask a question, please press the # then the number 1 on your telephone keypad. And our next question comes from the line of John Dunn with Evercore.

John Joseph Dunn - *Evercore ISI Institutional Equities, Research Division - Associate*

One on active equities. You kind of had a rare outflow quarter this quarter. What do you think gets that back to inflows? Any particular funds you want to highlight and maybe the temperature of the consultants for active equities?

Seth Perry Bernstein - *AllianceBernstein Holding L.P. - CEO, President & Director*

Yes. Thanks, John, for the question. Yes, it was sort of an outlier, although I think it had much more to do with overall risk aversion in our client sets rather than issues with underlying strategies that we're offering. We continue to see strong appetite for large cap growth and other growth products generally, which I think reflects the fact that growth has been outperforming value year-to-date, which is a reversal, as you know. But we're also seeing increased interest in the value suite generally, which is encouraging as well, both on the institutional side and to a degree on the retail side. So we continue to see activity. We've had consultant support for our sustainable thematic strategy where we got an upgrade. And ultimately, what we did see was we had 13 strategies that had gross sales over $100 million in the first quarter. And when you look at we had basically $800 million in pipeline, whether it was sustainable global thematic strategic value, small-cap growth, small-cap value. So we're seeing it pretty broad-based. And we did get in April, a new mandate from an institutional client for $1 billion in our large-cap growth space, which was particularly encouraging for us. So hopefully, that gives you a sense of it. Onur, I don't know if you have anything you want to add.

Onur Erzan - *AllianceBernstein Holding L.P. - Head of Global Client Group & Head of Bernstein Private Wealth*

Yes. The 2 small pieces on the outflows, given we had a change in our emerging market value PM team, that led to some institutional outflows, so that's a more idiosyncratic event that led to the outflows. On the positive, we continue to be very encouraged by our U.S. large cap growth channel diversity in addition to the win in April that didn't make to the numbers yet. We also had seen very strong appetite from the CIT business, the Commingled Investment Trust business for our active strategies, particularly large cap growth and that CIT business has been a new engine that we ramped up in the last 4 to 6 quarters, and that basically plays into the retail DC channel, and I'm very pleased with the expansion of our reach of equities into the DC space, defined contribution plans. That's what I mean by DC.

John Joseph Dunn - *Evercore ISI Institutional Equities, Research Division - Associate*

Makes sense. And then can you remind us of your strategy as far as the wealth management sales force. I think you had been trying to do a more homegrown strategy. But does the current environment provide any outside recruiting opportunities?

Onur Erzan - *AllianceBernstein Holding L.P. - Head of Global Client Group & Head of Bernstein Private Wealth*

Thanks for that question. It has been a strong quarter for us in terms of adding new advisers -- we were able to hire 15 advisers. Yes, to your point, historically, in our hiring, we had a skew towards earlier tenure advisers that we train by leveraging our very well-recognized industry training program that has been time tested for multiple decades now. The current environment definitely opens opportunities for more experienced hires. We definitely made outbound calls, got inbound as well. We have several experienced hires in the pipeline. We will always be selective because we care about the sustainability and the culture of the franchise. But definitely, it adds an additional opportunity for us to accelerate our organic growth, which, by the way, was very, very high in the first quarter. There's some seasonality to that. But if you look at our first quarter, we had roughly 7-plus percent organic growth in our private wealth channel. -- and these kind of experience higher opportunities given the disruption with the regional bank model definitely should help us with the hiring.

Operator

And there are no further questions at this time.

Mr. Griffin, I'll turn the call back over to you.

Mark C. Griffin - *AllianceBernstein Holding L.P. - Head of IR*

Thank you, Kayla. Thanks, everyone, for participating in our call today. Please feel free to reach out to Investor Relations with any follow-up questions, and have a great day.