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AB.N - Q2 2022 AllianceBernstein Holding LP Earnings Call

EVENT DATE/TIME: JULY 29, 2022 / 2:00PM GMT

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PRESENTATION

Operator

Thank you for standing by, and welcome to the AllianceBernstein Second Quarter 2022 Earnings Review. (Operator Instructions) As a reminder, this conference is being recorded and will be available for replay for 2 weeks.

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

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

Thank you, Sarah. Good morning, everyone, and welcome to our second quarter 2022 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 Matt Bass, Head of Private Alternatives. Bill Siemers, Controller and Chief Accounting Officer, 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, which we filed earlier this morning.

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. Our second quarter results reflected adverse market conditions as negative market sentiment was amplified by a sharp decline in asset prices in the quarter.

Despite outflows from taxable fixed income, we generated continued organic growth and market share gains in municipals and active equities and grew in alternatives/multi-asset, highlighting the strength of our globally diversified and differentiated services.

Our fee rate improved by 2% year-over-year, driven by a mix as higher fee active equities and alternatives both grew organically by 7% on a trailing 12-month basis. Our Institutional business saw inflows in the quarter and our pipeline grew driven by alternatives.

We closed on the CarVal acquisition on July 1, providing complementary private credit capabilities and specific strategies sought by our clients. AB now has a $54 billion private markets platform, which we are growing in partnership with Equitable.

Let's get into specifics, starting with a firm-wide overview on Slide 4. Gross sales were [$23.9 billion] (corrected by company after the call), down $12 billion or 34% from a year ago, excluding the impact of a onetime $8.7 billion Venerable sale in the prior year quarter.

Firm-wide active net outflows were $3.4 billion or $2.8 billion, excluding AXA redemptions. Quarter end assets under management of $647 billion declined 12%, both year-over-year and sequentially, and average AUM of $689 billion was down 5% year-over-year and 8% sequentially.

Slide 5 shows our quarterly flow trend by channel. Firm-wide, second quarter net outflows were $2.7 billion or $2.1 billion excluding AXA redemptions. Retail gross sales of $17 billion continued to moderate from a record 2021, resulting in net outflows of $2.2 billion. Investors continued to shed risk assets and returns were negative amidst rapidly increasing inflation and interest rate expectations. Organic growth in munis, alternatives/multi-asset and active equities was more than offset by net outflows and taxable fixed income.

Our Institutional channel grew organically for the eighth consecutive quarter, driven by alternatives, multi-asset and active equities. Sales of $3.3 billion were down from prior comparison periods, both of which had large onetime sales, the Venerable sale last year and the $9.6 billion target date sale in this year's first quarter.

In Private Wealth, gross sales decreased 8% compared to the prior year periods with net outflows of $1.2 billion, driven primarily by capital gains tax-related withdrawals on 2021 business sales.

Investment performance is shown on Slide 6, starting with fixed income. In the second quarter, yields continued to move significantly higher, reflecting a much more aggressive central bank tightening cycle. Credit sector returns were challenged with developed market, investment grade and high-yield corporate bonds materially underperforming global treasuries.

Within credit, investment grade outperformed high yield. While long-term fixed income performance remains solid with 62% of assets outperforming over the 5-year period, our 1-year performance dipped in municipals where an overweight to credit detracted as credit spreads widened dramatically particularly in BBBs.

Despite the municipal sell-off, muni credit fundamentals remain strong, with 49 states reporting revenue collections above budget projections in fiscal 2022.

Emerging markets exposure in our global high-yield income funds also detracted from performance.

Our long-term tax exempt performance remains stellar, with all 10 of our strategies in the top quartile and half in the top decile across the 5-year period. Sustained demand for our tax-exempt SMA vehicles continues to generate high teens organic growth, and our Tax Aware strategies grew by over 20% annualized.

Turning to equities. Global equities fell sharply in the second quarter as U.S. markets slid into bear market territory. The MSCI World Index fell by 14.3% in local currency terms with U.S. large-cap stocks tumbling by 16.1%.

Regional returns varied meaningfully with relatively modest declines in the U.K. and Japan. Emerging markets losses were offset by gains in Chinese stocks. A strengthening U.S. dollar reduced losses for non-U.S. investors in American equity portfolios.

The dramatic style shift seen in the first quarter continued in the second with the Russell 1000 Growth Index declining by 21% compared with 11% decline in the Russell 1000 Value Index in the quarter.

Growth peers continued to struggle against the benchmark, with just 18% of U.S. large cap growth managers and 35% of small -- mid-cap growth managers beating their benchmarks year-to-date.

While our equity returns over 1 and 3 years have also lagged benchmarks, we continued to outperform Morningstar peers. And several of our larger equity strategies, including U.S. large cap growth, select US equity and global core outperformed their benchmarks in the second quarter as key factors we emphasize, including profitability and quality, came back into favor as recessionary concerns deepened.

Our value strategies continued through year-to-date outperformance against benchmarks. And once again, we saw inflows into several international value strategies, including China value and Asia ex Japan value.

In total, 49% of our AUM outperformed for 1 year, 36% for 3 years and 82% for the 5-year periods, respectively.

Versus Morningstar peers, 69%, 59% and 78% of our equity assets outperformed over the 1-, 3- and 5-year periods.

I'm pleased to note that for the third time in the last 4 years, our equity buy-side trading team was named Best Buy-Side Global Equity Desk by Markets Choice Awards.

Now I'll review our client channels, beginning with retail on Slide 7. Sales of $17 billion in our retail channel declined by $6.5 billion year-over-year and $3.3 billion sequentially, impacted by negative market sentiment across both fixed income and equities. The overall redemption rate improved over both prior periods to 26.6%, most notably in our high-income products in Asia.

Net outflows were $2.2 billion driven by our global high income suite. Of note, while industry-wide U.S. retail taxable bond outflows doubled sequentially, AB's taxable fixed income outflows improved from the prior quarter.

While we've recently seen a small recovery, we believe global high-yield valuations and forward returns are attractive, though concern remains over the entry point.

At quarter end, gross of fees, our global high-yield portfolio had a yield to worst of 11% versus 9.5% for the broader market.

Investors await more certainty around inflation and central bank reaction, particularly in emerging markets related strategies. Municipals, led by our SMA Muni Tax Aware product, have posted record sales in the quarter, growing at a 10% annualized organic rate, now positive for 8 consecutive quarters.

Despite softer sales, active equity continues to grow, now positive for the last 21 quarters. Several flow rankings are shown in the bottom right.

Turning to Institutional on Slide 8. Second quarter gross sales of $3.3 billion declined from prior periods, both of which benefited from large onetime sales. Redemptions continued to moderate to $2.6 billion or a 3.2% annualized rate. Net inflows of $700 million or $1.3 billion ex-AXA were positive for the eighth consecutive quarter and 12 of the last 13. Diverse inflows included China value, sustainable global thematic, global core equity, middle market lending and merger arbitrage.

Our pipeline stood at $10.2 billion at quarter end, up 4% sequentially. 90% of additions were alternatives, which now comprise 3/4 of the pipeline annualized fee base, supporting an active pipeline free rate more than 3x the channel average.

Additions in the quarter included $750 million from Equitable for CarVal's residential mortgage loan strategy; $750 million from AXA into CRED, evidence that we continue to see private alternatives inflows from AXA; and a $500 million win for merger arbitrage.

Post quarter end, we were informed that we've been awarded a large multibillion-dollar custom target data count. This is another nice win for our defined contribution business, which continues to grow its long-term customer base of nearly 2 dozen of the largest and most sophisticated DC plans in the U.S.

We continue to see advocacies from global and regional consulting firms, which has led to new business across both their advisory and OCIO-delegated clients.

In the quarter, our China A emerging markets value and U.S. sustainable thematic received upgrades. Taking a step back, 1 year after announcing the Equitable private market commitment of $10 billion, we're pleased with the progress we're making against our multiyear objective of deploying our partners' capital in a variety of strategies.

Moving to Private Wealth on Slide 9. Second quarter gross sales declined by 8% year-over-year and were up 4% on a year-to-date basis. Net outflows were $1.2 billion, driven by large capital gains-related tax withdrawals due to the 2021 business sales from our growing entrepreneur client base. We've discussed the success we've had in our strategy of cultivating our growing pre-transaction planning pipeline. As we ramp from a lower base, lumpy flows from large business sales, including subsequent year tax-related withdrawals may continue to have an outsized impact.

We continue to see our mix shift toward our ultra-high net worth, $20 million and over clients, with net client relationship growth well outpacing the channel average, influenced by our pre-liquidity event planning efforts.

Private alternative commitments more than doubled in the quarter versus the prior year driven by real estate equity, private equity fund of funds and commercial real estate private debt.

Our proprietary direct indexing strategy grew to $1.7 billion, up 70% year-over-year and ESG portfolios continue to be an important differentiator for our clients.

I'll finish our business overview with the sell side on Slide 10. Second quarter Bernstein Research revenues increased by 1% year-over-year and were down 10% sequentially. Despite a much more volatile 2022, U.S. institutional trading volumes remain relatively constrained amidst an uncertain environment. Revenues increased in the U.S. and declined in Asia and Europe.

Encouragingly, revenues from research checks continued to post healthy growth, up 8%, reflecting the strength of our brand and the value brought to clients.

Our 38th Strategic Decisions Conference held in-person for the first time since 2019 was a resounding success with a strong and spirited client participation and a higher corporate turnout than pre-pandemic.

And we launched coverage from 4 global sectors this past quarter, U.S. emerging Internet, European autos, India industrials and infrastructure and China software.

I'll conclude by updating you on our strategic initiatives on Slide 11. While long-term performance across both equities and fixed income remain strong, near-term performance reflects challenging markets. Performance improved this quarter against equity benchmarks, while credit exposures impacted fixed income results. Global product diversification and our engaged client teams drove both organic growth in Institutional for the eighth consecutive quarter as well as multiple asset classes within retail, offset by net outflows from taxable fixed income. Our ESG portfolios with purpose now stand at $24 billion in AUM.

We recently announced our commitment to achieve net 0 emissions, working to align our business operations and a range of investment strategies with a pathway to limit global temperature increase to 1.5 degrees Celsius by 2050. This advances our long-standing effort to both act and invest responsibly.

In alternatives, we closed the CarVal acquisition and continued to see growth in our middle market lending and commercial real estate debt businesses as well as liquid strategies, including merger arbitrage and risk overlay.

Financially, second quarter adjusted operating income declined by 19%. Adjusted operating margin was 27.7% and adjusted earnings and unitholder distributions of $0.71 per unit declined 22% versus the prior year.

Early in July, we announced new leadership changes. I'm pleased that Kate Burke has assumed the role of Chief Financial Officer in addition to her role as Chief Operating Officer. I thank Bill Siemers for his capable service as Interim CFO. Bill remains our Controller and Chief Accounting Officer. Onur Erzan, AB's Head of Client Group, has been appointed Head of Bernstein Private Wealth in conjunction with his Client Group role. The alignment resulting from these appointments will support our strategic growth plans going forward.

Now I'll turn it over to Kate to review the financials. Kate?

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

Thanks, Seth. It's a pleasure to be with you this morning.

Let's start with the GAAP income statement on Slide 13. Second quarter GAAP net revenues of $971 million decreased 10% from the prior period. Operating income of $193 million decreased 32% and operating margin of 22.6% decreased by 340 basis points. GAAP EPU of $0.69 in the quarter decreased by 24% 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 a reconciliation of GAAP to adjusted results are in our presentation appendix, press release and 10-Q. Our adjusted financial highlights are shown on Slide 14, which I'll touch on as we walk through the P&L shown on Slide 15.

On Slide 15, beginning with revenues. Net revenues of $816 million decreased 7% versus the prior year period and were down 10% sequentially.

Base fees decreased 3% versus the prior year period as 5% lower average AUM, lower across all 3 distribution channels, was driven by market declines, offset by trailing 12-month net inflows in each channel. The second quarter fee rate of 39.4 basis points was up 2% year-over-year and up 1% sequentially.

We continue to believe that although our fee rate may be volatile from time to time, given the potential for large low DC mandates, such as the new target date mandate, one in July referenced in our earlier remarks, over the long term, it should continue to grind higher.

Second quarter performance fees of $18 million declined by $36 million from the prior year period, reflecting lower fees in our U.S. select equity long short and private credit services. Given current markets, we continue to see full year 2022 performance fees below 2021's outside level, somewhere between 2019 and 2020 levels. This includes the addition of CarVal's performance fees in the second half of the year.

Second quarter revenues for Bernstein Research Services increased 1% from the prior year period as higher revenues in the U.S., driven by market volatility, were offset by lower trading volumes in Asia and Europe. This continues the trend that began late last year with a shift in Asian investor sentiment away from risk.

We incurred fees-related investment losses of $6 million in the second quarter as compared to a slight gain in the prior year period of less than $1 million.

Moving to adjusted expenses. All in, our total second quarter operating expenses of $590 million decreased 2% year-over-year and were down 5% sequentially.

Total compensation and benefits expense decreased 7% in the second quarter versus the prior year period, reflecting lower AUM-driven revenues and performance fees as well as a lower compensation ratio of 48% of adjusted net revenues as compared with 48.5% in the prior year period. The decrease in compensation expense was driven by lower incentive compensation, reflecting the lower compensation ratio, offset by higher base compensation driven by a 6% increase in average headcount.

In the second quarter, global equity and fixed income markets declined sharply with the S&P 500 down 16%, reducing our base AUM and revenue levels.

Given market conditions, we plan to accrue compensation at 51.0% ratio in the third quarter of 2022 and may adjust further if market conditions change. This should be viewed within the full context of our full year comp-to-revenue ratio for which we approved 48% in the first 2 quarters of the year. We plan to pay competitively based on performance, given our people are our most important assets. As a reminder, the compensation ratio is sensitive to variability in the asset mix, and to the mix due to year-end performance of performance fee eligible funds.

Promotion and servicing costs increased 33% in the second quarter as T&E and sales and client-related meetings increased compared with depressed levels in the prior year period due to the pandemic. We are managing promotion and servicing spend levels to decline slightly sequentially in the back half of the year to a more normalized pace, lower than the second quarter, though above last year's depressed levels.

G&A expenses increased 7% in the second quarter versus the prior year period and were up 2% sequentially. Of the 7% year-over-year increase, about 4% was due to strategic investments in growth and efficiency technology projects. Inflationary pressure comprised 2%, and lapped last year's second quarter when these pressures have begun to emerge, and core G&A was about 1%.

For the full year, we are targeting G&A at the low end of our prior guidance of mid- to high single-digit percentage growth.

Subject to market conditions, we will continue strategic technology investments including the use of outsourced consultants, where appropriate, and we expect inflation to persist.

Second quarter operating income of $226 million decreased by 19% versus the prior year period. Second quarter operating margins of 27.7% was down 400 basis points year-on-year.

Given the market conditions, we continue to expect 2022 margins to be impacted year-over-year reflecting continued higher inflation and select growth-related investments, combined with rebounding T&E expenses from prior year COVID-induced lows and lower performance fees.

As outlined in the appendix of our presentation, second quarter earnings exclude certain items that are not part of our core business operations.

In the second quarter, adjusted operating earnings were $6 million or $0.02 per unit above GAAP operating earnings due primarily to acquisition-related expenses.

Going forward, as a result of us acquiring significant intangible assets in the CarVal transaction, our amortization of intangible assets, which are included in acquisition-related expenses, and our GAAP to adjusted earnings reconciliation will increase commensurately.

The second quarter effective tax rate for AllianceBernstein L.P. was 5.5%. We continue to expect an effective tax rate for 2022 of approximately 5% to 5.5%.

Regarding the Nashville corporate headquarters relocation. At quarter end, we had 1,082 Nashville-based employees, up 25% from a year ago and more than 85% of the way to our target of 1,250. We continue to expect the relocation will be accretive for the full year 2022 with compensation-related savings more than offsetting increased occupancy costs.

And as Seth mentioned, we were pleased to close the CarVal acquisition on July 1. We purchased 100% of CarVal for an upfront purchase price of $750 million at a low teens EBITDA multiple and a multiyear contingent earnout ranging from 0 to $650 million if certain performance targets are reached. This adds approximately $11.7 billion of fee-earning AUM and $3.7 billion of fee eligible AUM. We expect the deal to be slightly accretive to EPU in 2022, in 2023 and improving thereafter. The fee rate is approximately 1% and margins are consistent with our existing mature alternatives business with upside as we scale.

Now I'm pleased to turn it over to Matt Bass, Head of Private Alternatives, for some additional comments on CarVal. Matt?

Matthew Bass - *AllianceBernstein Holding L.P. - Head of Private Alternatives*

Thanks, Kate, and good morning, everyone.

Just to reemphasize what Seth and Kate mentioned, we are thrilled to officially welcome the CarVal team to AB. We've been able to partner with a terrific firm that has an excellent cultural, strategic, product, and financial fit for both clients and unitholders.

As previously mentioned, the addition of AB CarVal brings our private markets platform to nearly $54 billion in AUM, adding capabilities in opportunistic and distressed credit, renewable energy, specialty finance and transportation investments, while complementing our existing scaled capabilities in corporate direct lending, commercial real estate lending and private placements.

Since the acquisition announcement in March, client activity and fundraising momentum has been strong with approximately $2.1 billion raised by AB CarVal across their diversified product line, including our clean energy strategy.

At the same time, work continues regarding new product development opportunities for AB CarVal across client channels, including high net worth, Retail and Institutional as well as insurance with our partner, Equitable. Some current areas of focus include a residential mortgage whole loan strategy, clean energy, hard assets, transportation and opportunistic credit strategies.

Speaking of Equitable, 1 year post announcement of our $10 billion private markets partnership, we continue to make progress, working together across both organizations to expand AB's existing strategies and launch new strategies towards meeting Equitable's general account needs and deployment goals.

Looking forward, Equitable remains supportive of AB's strategy to grow our private markets offerings, including additional commitments in the future,for existing and new services AB may develop, subject to Equitable's risk and return objectives.

With that, operator, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from Alexander Blostein with Goldman Sachs.

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

Congrats, Kate, on the new role, or expanded role.

I wanted to start maybe with a question around just, Seth, your kind of pulse on fixed income market and allocations given kind of the rapidly changing backdrop. I guess given sort of stabilizing interest rate dynamic, are you starting to see any green shoots in terms of people sniffing around on adding back to the asset class or are wider credit spreads risk still kind of weighing on the appetite there?

And I guess within fixed income broadly, any particular area that you're starting to kind of see some green shoots and kind of how is AllianceBernstein positioned to benefit from that potential improvement?

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

Thanks, Alex, for the question. And I'm kind of nervous to be pointing out green shoots, but the last -- I have to say the last couple of weeks we have in fact seen some more stability in interest rates. And frankly, there's been a bit of a rally in risk assets, and we have seen better flows in the strategies that we really saw outflows from.

So I don't want to suggest to you that, that is something that we're going to count on because I think there's still going to be volatility ahead for rates. But there seems to be a little more consensus around the Fed's direction and the rate of change in inflation. So that, given dollar strength as well, gives us perhaps an opportunity to recoup some traction here.

But I guess, from our own perspective, we always tend to underperform in risk-off environment because we tend to have pretty significant credit positions in our portfolio. We try to avoid idiosyncratic name and sector bets. So when we really do see a strong divergence between like corporate and high yield, you'll see our high-yield portfolio is going to suffer. And in American income and global high yield, of course, we have emerging markets as well. So that has been a headwind in this regard. But yes, we are seeing better both performance and better flows.

And then just to add to that, we continue to see very strong flows in munis, which I find very surprising just given the rate of backup in interest rates but they've proven to be pretty attractive. And I think we have a value proposition that distributors and clients are taking interest in. But munis should follow suit as well, if, in fact, we are reaching some sort of plateau here on rates, although I'm not calling that.

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

Got it. All right. Fair enough. And then, Kate, question for you just around the overall pretax or operating margins in the business. I appreciate the updated guidance on the comp rate. And obviously, nice to see G&A pull back maybe a little bit in light of a tougher revenue backdrop.

But as you were think about where the margins could end up once we get through kind of the near-term volatility but also taking into account, obviously, higher inflation that everybody else has seen as well. If we anchor around kind of pre-COVID levels, I think you guys were kind of in the 27% to 28% operating margin. Should we think there's kind of scale and operating leverage on top of that? Or is that likely to be the place where the firm as a whole can sort of live for the time being?

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

Thanks for the question. Look, I think your description of the environment we're in is accurate and that we are recognizing and as you've seen in the change to our comp ratio guidance that we recognize that there is certainly wage inflation, particularly in the lower compensation bands that we are well aware of and want to manage through as well as we are continuing to invest. Our headcount is up largely due to strategic investments that we're continuing to make and that we want to continue to make through the cycle so that we're well positioned strategically in a recovery to be able to optimize those strategies.

But that being said, we are also being vigilant around our expenses. And that we are -- as I mentioned, we're targeting G&A growth to be at the lower end of our prior guidance of that mid- to high single digit. We are looking at areas like travel T&E to see where we can be focused in terms of bringing in some of those expenses here in the third quarter. We expect that to be down slightly versus our second quarter spend. Second quarter, I think, was the real return of a lot of client-related and travel as we recovered from the pandemic, but we do anticipate that to come down in the third and fourth quarter.

And ultimately, I think you can expect our margins to be in the high 20s as we round out the year, subject, of course, to market conditions and our ability to respond to them.

Operator

Our next question comes from Daniel Fannon with Jefferies.

Daniel Thomas Fannon - *Jefferies LLC, Research Division - Senior Equity Research Analyst*

Another question on flows on equities. Clearly, a very long and consistent trend of inflows, but as we kind of think about the industry still facing a lot of headwinds for active equities and you guys kind of bucking that trend. If you think about performance and maybe the channels for which you've had success, are there any changes or trying to think about the outlook for that asset class as you think about your complex of products?

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

Yes, let me take that. Look, it's been a pretty tough market, as you rightly characterized it. And we've seen lower gross sales, I think, as a consequence of that. But I would say we continue to have a suite of services that resonate with our clients. And we have continued to see strength there.

Now there are stories within that. You know that Large Cap Growth, we continue to see interest in it, and then as growth has begun to rally relative to value, that interest has been renewed, and we have interest in Japan for that product. That has -- that also has a dollar impact to it. So I think we benefited from that as well, and that could reverse, of course.

But we continue to see interest there. We have seen a pickup of interest in some value strategies, particularly institutionally, which has been gratifying, and we also are seeing interest in some of our more discrete strategies in different parts of the market.

So all in all, I think it's more selective. I think if conditions continue to prove arduous, I'm not sure we'll continue bucking the trend. But given where we are right now, I'm comfortable that we'll continue to find an audience who is receptive to our services.

But look, we're -- ultimately, I think there's a lot of uncertainty still in the marketplace. So I don't want to sit here and bang the table about it, but we continue to see pretty good flows.

Daniel Thomas Fannon - *Jefferies LLC, Research Division - Senior Equity Research Analyst*

Great. That's helpful. And then I did want to clarify one of your comments, Seth, around the Private Wealth channel. Obviously, you had tax-related outflows this quarter, but I think you mentioned kind of ongoing potential, I guess, headwinds to assets, but I know you have a lot of initiatives that are also are enhancing productivity. So maybe just to kind of recap and enhance upon some of your comments around the outlook for that channel.

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

Yes, we continue to see pretty strong new client interest, and that's pretty broad-based. As you know, we have a client base that is -- has a fairly large component of entrepreneurs who are really in the process or have been talking about transformational states where selling or bringing on other investors into their businesses. And so we are sensitive to capital markets and M&A activity. So our flow has been, I think, adversely impacted there as a consequence of that. But we continue to see growth there. We continue to see interest, particularly in alternatives in that client base and tax managed solutions. So it's been pretty good.

I think second quarter is always challenging for tax reasons. But 2022, obviously, was particularly hard, just given the convergence of incredible results in 2021 in investment results and the fact that we had such a widespread drawdown in markets.

So we continue to see interest, but it's going to be affected by the direction of overall conditions.

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So look, we continue to invest in bringing new FAs on board, we tend to develop ours organically. We don't buy teams. And so it's a longer build out, and so progress is slow but methodical.

Operator

(Operator Instructions) Our next question comes from John Dunn with Evercore ISI.

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

A little bit ago, you mentioned Japan. Can you remind us what the more notable like flow trends going on in Asia or outside of American income and global high yield and maybe also kind of a thumbnail sketch of what's going on in Europe?

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

Sure. I mean you've highlighted 2 of the biggest ones, and we have seen a bit of more interest coming for global high yield and American income more recently, as I mentioned a little earlier. We also see interest in Asia for a number of our multi-asset strategies. Although those tend to be sponsored by distributors and some new programs come and go, but there has been interest there. And when you look over to Europe, we've seen institutional interest in a number of strategies, particularly in alts. Less so on the more traditional side. I think more traditional side has seen the similar risk aversion that we've seen here in the U.S. So those are sort of the headlines I will give you from a regional perspective.

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

Got you. And then just given where we've been over the past few quarters, any changes to the discussions for investor appetite for ESG, both on the retail and side and then maybe too just regionally.

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

Sure. Look, a number of ESG funds, and we're not unique, have been certainly less interest for sure, just given the outperformance of commodities in the context of the markets today.

That being said, we continue to have strong consultant support institutionally for those strategies. We see support for ESG in our Private Wealth business, where that continues to resonate. And frankly, look, I think that it's very healthy for investors interested in ESG to recognize they have to separate growth and momentum factors from companies that are really practicing ESG values because there was a very high correlation, as you know, historically, between those that screened well and those factors that we're outperforming.

So I think it's a welcome slowdown in my view because I think clients are becoming more discerning particularly with regard to strategies where you may still be investing, for example, in carbon emitting industries, but investing in companies with green patents or who are on a course to significantly reduce their carbon footprint over time. I think there's a lot of resonance there, and we're seeing interest with clients.

So I think it's temporary and the trend will continue, and it's certainly continuing in Europe. In the U.S., it's in a much earlier stage.

I just also would like to just go back and give a little more color that we are seeing low vol equities in Asia, ex Japan also having some resonance, and we see large cap growth continuing to grow in Japan. So I think I should have just added those when you -- for your prior question.

Operator

(Operator Instructions) I'm showing no further questions at this time. Mr. Griffin, I turn the call back over to you.

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

Thank you, Sarah, and thank you, everyone, for participating in our conference call today. Feel free to reach out to Investor Relations with any further questions, and have a great day.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.
