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EDITED TRANSCRIPT

AB - Q4 2019 Alliancebernstein Holding LP Earnings Call

EVENT DATE/TIME: FEBRUARY 12, 2020 / 1:00PM GMT

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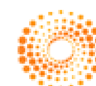

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PRESENTATION

Operator

Thank you for standing by, and welcome to the AllianceBernstein Fourth Quarter 2019 Earnings Review. (Operator Instructions) As a reminder, this conference is being recorded and will be available for replay for 1 week.

I would now like to turn the conference over to your 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, Jody. Good morning, everyone, and welcome to our fourth quarter 2019 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. Seth Bernstein, our President and CEO; John Weisenseel, our CFO; and Jim Gingrich, our COO, will present our results and take 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 1 of our presentation.

You can also find our safe harbor language in the MD&A of our 2019 10-K, 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. Thank you for joining us today. I'm pleased to report our 2019 results reflected broad-based strength across AB. Firmwide active net inflows were $8.1 billion in the fourth quarter bringing full year active net inflows to $29.7 billion, which translates to a 6.5% active annualized organic growth rate, our best year in more than a decade. Flows were driven by a very strong year in fixed income and continuing success with active equities, which were well diversified across channels and regions. And in an environment of declining fee rates, AB's overall portfolio fee rate remained fairly stable, thanks to a favorable mix change.

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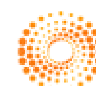

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Now let's get into the specifics, starting with a firmwide overview on Slide 3. Annual gross sales of $103.7 billion in 2019 were up $10 billion or 11% from 2018. The retail channel was robust, reflecting high demand for global fixed income products throughout 2019.

Total firmwide net inflows were $25.2 billion for the year, comprised of $29.7 billion in active net inflows and $4.5 billion in passive net outflows. Combined with strong markets and strong -- and solid investment performance, our year-end assets under management of $623 billion increased 21% from the prior year. We also reported strong net inflows for January this morning, a continuation of trends we saw in 2019.

Slide 4 shows our quarterly flow trend by channel. Firmwide net inflows of $6.5 billion consisted of $8.1 billion in active net inflows, partially offset by $1.6 billion of passive net outflows. Net inflows were positive for the sixth consecutive quarter driven by healthy Retail and solid Institutional results, while Private Wealth flows were essentially flat.

In Retail, gross sales of $18.9 billion were the second highest in our retail history, eclipsed only by the prior quarter. And Retail net inflows of $5.2 billion exceeded $5 billion for the fourth consecutive quarter.

In the bottom left chart, you can see Institutional gross sales of $5.4 billion increased sequentially, resulting in net inflows of $1.4 billion as active equity inflows of $2.6 billion grew at an annualized rate of 27%.

In Private Wealth, gross sales and redemptions both improved relative to sequential and prior year periods.

Slide 5 is an annual flows view. Firmwide net inflows of $25.2 billion were the best we produced since before the global financial crisis and were led by Retail, which had net inflows of $23.8 billion. Institutional had net inflows of $2.4 billion, and Private Wealth flows contracted by $1 billion, following 3 years of growth.

Now let's turn to investment performance beginning on Slide 6. In Fixed Income, our global diversified approach continued to drive highly competitive risk-adjusted returns with 81% of assets outperforming over 3 years and 92% of assets outperforming over 5 years. Our 1-year performance improved to 86% of assets outperforming, led by our global high-yield fund, AB income and global bond funds. The barbell approach in our multi-sector funds, which includes exposure to high yield combined with outperformance of risk assets in the fourth quarter, contributed to these results.

In Equities, our long-term investment performance also remained strong with 62% of assets outperforming over 3 years and 84% over 5 years. In the most recent 1-year period, 43% of assets outperformed. Our large-cap growth (inaudible) quality bias, combined with its higher cash position, led to underperformance.

In our strategic equities portfolio, lower beta caused us to trail the market as it did -- as did under exposure to more cyclical sectors such as semiconductors.

Slides 7 and 8 provide more insight on retail fixed income and equity investment performance. The fixed income table on Slide 7 reflects that our track records are compelling across the near-, mid- and long-term horizons. Performance in our income portfolios have been particularly strong. Both American income and European income are well within the top quartile for each of the 1-, 3- and 5-year periods. The income fund is top decile for the 1-, 3- and 5-year periods. And our municipal strategy show consistent outperformance with municipal bond inflation and intermediate diversified muni strategies in the top decile for each of their comparable periods and the high income portfolio in the top quartile for the 1-, 3- and 5-year periods.

Moving to equities on Slide 8. Among offshore offerings, our concentrated global, global core and select U.S. long-short strategies continue to place in the top quartile in all-time periods. And global low vol was in the top decile for the 3- and 5-year time periods.

Of our U.S. retail funds, our concentrated U.S. and international growth portfolios were both in the top decile over the 1-year period while maintaining strong performance over the 3- and 5-year periods. And our large-cap growth maintained top quartile performance over the 3- and 5-year period. Within our value offerings, we continued to underperform, while emerging markets growth service experienced to rebound in 1-year performance.

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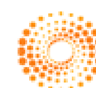

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Let's move on to our client channels, beginning with retail on Slide 9. We enjoyed tremendous success this year following years of investment in our retail platform. Our overall sales of $75.3 billion were up 39% year-over-year and surpassed our prior record by $19 billion or 34%. As the top-left chart shows, while exhibiting particular strength in Asia, sales grew in all regions versus the prior period and net flows were positive in each region as well. Full year active net inflows were $27.2 billion, exceeding $5 billion in each quarter of 2019. These results were led by our fixed income platform, which saw active net inflows of $23.6 billion or a 31% organic growth. We ranked third out of 412 peers in cross-border retail net fixed income flows.

Turning to Equities. Our active equity platform grew its net flows $3.4 billion, the third consecutive year of organic growth. We've demonstrated consistency with active equity net inflows in 11 of the past 12 quarters. We continued to show significant diversity inflows of 33 funds, attracted net inflows of $100 million or more in the year, 17 of them equities, 14 fixed income and 2 multi-asset. At year-end, AB Retail assets under management were $239 billion, an all-time high, up 32% versus the prior year. And 55 retail offerings had more than $1 billion in assets under management.

Our U.S. retail active equity net inflows during the year were excellent. AB ranked 6 out of 455 asset managers. Our international equity and taxable fixed income platforms both ranked in the top decile of flows, and our municipal bond and liquid alts strategies placed in the mid-teen percentiles for net flows versus peers. These are distinguished results.

We also continued to see success in our multi-asset strategies, particularly those oriented towards income, as exemplified by our all-market Lux fund, which had -- was approved for 15 platforms in 2019 and just surpassed over $1 billion in AUM with over $700 million in gross sales during the year.

Now I'll discuss institutional on Slide 10. Gross sales for the year were $17.1 billion, with net inflows of $2.4 billion, comprised of $3.8 billion active net inflows, partially offset by $1.4 billion of passive outflows. Sales continued to be led by our active equity platform, which is $9.2 billion, were up 25% versus the prior year, our best year since 2008. It's worth noting that gross sales have exceeded $1 billion for 9 of the past 10 quarters.

Net inflows of $2.9 billion in active equities translated into a 9% organic growth rate, led by our global core and global concentrated growth strategies.

Over the past 2 years, our institutional equities business has grown at an average organic growth rate of 11%, very strong results, given the landscape. Our institutional pipeline grew to $15.1 billion at year-end, with $9.2 billion in pipeline additions in the fourth quarter. That's up 30% sequentially and 56% year-on-year. This is the second quarter in a row that our pipeline's annual fee base has exceeded $40 million and shows diversification across asset classes and geography.

New additions in the fourth quarter of $9.2 billion included a $5 billion low-fee passive strategy. Excluding that, the average fee rate remains more than twice the channel average.

One additional note, as stated in our earnings release and 10-K, we were sorry recently to receive notification from AXA of its intent to terminate approximately $14 billion of fixed income investment mandates during the first half of 2020. However, the fees we earned from managing these assets are low and the revenue impact is not significant.

Moving to Private Wealth Management on Slide 11. Full year sales of $11.3 billion reflected some softness due to the broader geopolitical environment. In some cases, inflows from clients expecting to sell their businesses did not materialize when small business transactions were put on hold due to growing economic uncertainty, and some clients with cash to invest turned cautious awaiting resolution of the China trade situation and clarification of Fed interest rate policy.

Redemptions in 2019 were below our long-term average, resulting in full year net outflows of $1 billion.

An important element of our strategy is to continue to grow the high-end portion of our business. In 2019, client accounts of assets greater than $20 million grew by 1.1% and alternatives committed and deployed now comprise $11.2 billion, having grown by $1.9 billion or 20% versus the prior year. These products are supportive of continued growth in our targeted affluent and more highly complex client base.

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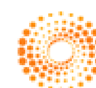

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We grew our adviser base by 6%, which is at the high end of our target due to lower-than-expected adviser turnover. And we also saw strong growth in ESG strategies, which grew to $2.7 billion, up 80% from the prior year.

A few comments regarding our firm's ESG strategy. As a fiduciary, responsible investor and research firm, we believe that being a responsible company and investing responsibly go hand-in-hand, a theme noted in our corporate responsibility report published this past quarter. We've invested in several tools to extend and integrate our ESG capabilities into our investing platforms, including a proprietary digital platform called ESIGHT. To help teams formalize their ESG evaluations and share insights from company engagement, our fixed income Prism research platform includes proprietary ESG scores that directly impacts analyst ratings for each issuer. And our sell-side research teams integrate ESG factors into their stock and company analysis.

I'll finish our business overview with the sell-side on Slide 12. Bernstein research continues to feel the effects of a difficult environment as customer activity remained depressed in most geographies. Fourth quarter and full year revenues declined by 4% and 7%, respectively, as compared with the prior year periods. In 2019, we continued to focus on our efforts on a few select growth opportunities while taking appropriate steps to manage the business to ensure that it continues to contribute to AB's profitability. Accomplishments in 2019 included: we remained on plan with our integration of autonomous, achieving our cost savings targets, while our cross-selling efforts are on track with more than 100 potential new clients on trial; the launch of both Indian trading and build-out of an Indian research and sales team in Mumbai; focused Asian research investments, including 7 sector launches; and increased pre-IPO research.

Importantly, we had another strong showing in the institutional investor, AART survey with 18 top-ranked sectors.

I'll close by highlighting some of our 2019 accomplishments on Slide 13. We continued delivering strong differentiated investment returns for clients across fixed income, equities, multi-asset and alternatives, which, combined with our global distribution capabilities, drove 6.5% active organic growth for the full year.

Retail had record results with active organic growth of 20% for the full year, achieved through diversified net inflows across a diverse number of products.

Institutional saw strength in active equity flows and growing pipeline of higher fee business. New alternative offerings in 2019 included a fund-to-funds JV as well as our third commercial real estate fund. We built the CLO management business, leveraging our existing high-yield and middle-market direct lending platforms. All of this was done while simultaneously relocating key functions to Nashville, where we now expect to employ 1,250 people, resulting in meaningful expense savings.

In summary, we had a strong year across our global platform, and we're well positioned for continued growth in 2020.

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

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO*

Thank you, Seth. Let's start with the GAAP income statement on Slide 15. Fourth quarter GAAP net revenues of $987 million increased 23% from the prior year period. Operating income of $268 million increased 35% and a 26.4% operating margin increased by 140 basis points. GAAP EPU of $0.84 compared to $0.63 in the fourth quarter of 2018.

As always, I'll focus our 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 upon our adjusted results, which we provide in addition to and not as substitute for our GAAP results.

Our standard GAAP reporting and a reconciliation of GAAP to adjusted results are in our presentation's appendix, press release and 10-K.

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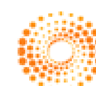

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Our adjusted financial highlights are included on Slide 16. Fourth quarter revenues of $817 million, operating income of $264 million and our margin of 32.3% all increased year-on-year. We earned and will distribute to our unitholders $0.85 per unit compared to $0.64 for last year's fourth quarter. Higher base and performance fees, combined with flat promotion and servicing expenses primarily drove the stronger results.

For the year, revenues decreased by $10 million to $2.9 billion, operating income decreased by $50 million to $802 million and operating margin decreased by 160 basis points to 27.5%. Adjusted EPU decreased to $2.52 from the prior year's $2.57. Lower performance fees, Bernstein Research service revenues, combined with higher G&A expenses, were the primary drivers of the weaker results. We delve into these items in more detail on our adjusted income statement on Slide 17.

Beginning with revenues, net revenues increased 17% for the fourth quarter but relatively flat for the full year versus the same prior year periods. Base fees increased 15% for the fourth quarter and 5% for the full year due to higher average AUM across all 3 distribution channels and a stable portfolio of fee rate of approximately 41 basis points.

Fourth quarter performance fees increased by $39 million to $74 million as a result of higher performance fees earned on our U.S. concentrated growth, $14 million; securitized assets, $11 million; and Arya, $8 million strategies. Full year performance fees of $97 million compared to $196 million for the same prior year period.

As discussed on our prior earnings call, 2018 performance fees included approximately $129 million of fees related to 2 funds: Financial Service Opportunity Fund I and Real Estate Equity Fund I, which were either liquidated or mostly liquidated in 2018.

Fourth quarter and full year revenues for Bernstein Research services decreased 4% and 7%, respectively, from the same prior year period. The current year period includes revenue from the Autonomous acquisition, which closed on April 1. Excluding Autonomous, Bernstein Research revenues decreased 19% for the fourth quarter and 15% for the full year due to lower global client activity and trading commissions.

Fourth quarter and full year net distribution expenses increased $8 million and $18 million, respectively, as a result of higher Asia retail fund sales and AUM.

Fourth quarter and full year investment gains of $3 million and $16 million, respectively, results from higher seed investment gains and compared to investment losses in the same prior year periods, which included a $6 million realized loss on the sale of a seed capital investment and a private equity fund in the fourth quarter of 2018.

Moving to adjusted expenses. All-in, our total fourth quarter operating expenses of $553 million increased 12%. Full year operating expenses of $2.1 billion increased 2% from the prior year. Total compensation and benefits expense increased 15% in the fourth quarter due to higher base and incentive compensation and increased 1% for the full year due to higher base compensation and fringe benefits, which were mostly offset by lower incentive compensation. Compensation was 44.8% of adjusted net revenues for the fourth quarter versus 45.2% in the prior year period. The full year 2019 comp ratio was 47.9%, up 40 basis points from the prior year.

Going forward, we expect to continue to manage to a comp ratio that will not exceed 50% in any given year. Given current market conditions, we plan to accrue compensation at a 48.5% ratio in the first quarter of 2020, with the option to adjust accordingly throughout the year if market conditions change.

Promotion and servicing was down slightly versus the same prior year periods due to lower marketing expenses, which were partially offset by higher T&E. Lower trade execution expenses also contributed to the full year decline.

G&A expenses increased 10% in the fourth quarter and 7% for the full year versus the same prior year period due to higher technology expenses related to our business initiatives; increased occupancy, primarily related to our headquarters relocation; and unfavorable foreign exchange translation. Higher errors also contributed to the full year increase.

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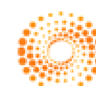

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Excluding the headquarters relocation and unfavorable foreign exchange effects, G&A increased by 5% in the fourth quarter and 4% for the full year when the increased errors are excluded as well.

Fourth quarter operating income of $264 million increased 29% versus the prior year period as revenue growth outpaced expense growth. Full year 2019 operating income of $802 million decreased 6% from the prior year, primarily as a result of lower performance fees and Bernstein Research revenues. Fourth quarter operating margin of 32.3% was up 300 basis points year-on-year, reflecting the operating leverage of our business.

Our full year 2019 operating margin of 27.5% was down 160 basis points from 2018. Of the 160 basis point decline, 80 basis points is due to the lower performance fees discussed earlier, 25 basis points is due to the headquarters relocation and the remaining 55 basis points is primarily attributed to the autonomous acquisition, increased trading errors and unfavorable foreign exchange translation.

You may have noticed that our fourth quarter adjusted EPU was $0.01 higher than our GAAP EPU, while our adjusted operating income was $4 million lower than our GAAP operating income. This is due to the exclusion of the following 3 items, which are now part of our core business operations.

First, we recorded $3 million real estate charge for GAAP reporting, most of which was to write-off a floor, which we had vacated in our White Plains office as a result of our Nashville relocation.

Going forward, this charge will also be deducted from our adjusted earnings on a straight-line basis over the remaining 2-year lease term and has been included in our headquarters relocation guidance.

Second, we recorded a $3 million GAAP P&L credit to reduce the contingent payment liability and a $3 million GAAP P&L intangible asset impairment charge related to a previous acquisition.

Finally, we deconsolidated certain seed investments in our adjusted results that we had consolidated for GAAP reporting. Consolidating these investments increased operating income by $8 million, but did not affect net income or EPU.

For the year, our adjusted EPU was $0.03 higher than our GAAP EPU, while our adjusted operating income was $21 million lower than our GAAP operating income. Here, in addition to the real estate charge and contingent payment liability reduction discussed earlier, we excluded $7 million in acquisition costs, which includes the intangible asset impairment charge recorded in the fourth quarter and a $30 million in consolidated variable interest entities operating income. These non-GAAP adjustments are outlined in the appendix of this presentation.

The full year 2019 effective tax rate for AllianceBernstein LP was 5.1%, about as expected. Going forward, we expect an effective tax rate of approximately 5.5% for 2020 based upon our current forecasted mix of domestic versus foreign pretax earnings.

Also, in 2020, the intangible assets resulting from alliance capital acquisition of Bernstein 20 years ago are about to be fully amortized. We have had an annual amortization charge of approximately $21 million for these assets, primarily investment contracts. $16 million remains to be amortized in the first 3 quarters of 2020 and then the charge will end.

I'll finish with an update on our planned corporate headquarters relocation to Nashville. Our relocation is going very well. Last month, we announced that we plan to relocate 200 additional positions to Nashville, increasing the total planned relocated positions to 1,250. At year-end, we had over 600 Nashville-based employees. For the fourth quarter, transition costs related to our Nashville corporate headquarters relocation totaled $8 million compared to estimated expense savings of $4 million, resulting in a net $4 million reduction in operating income and about a net $0.02 reduction in EPU. Of the net $4 million, approximately $1 million is compensation related and the remaining $3 million representing increased occupancy costs.

For the full year of 2019, transition costs totaled $33 million compared to estimated expense savings of $16 million, resulting in a net $17 million reduction in operating income. That is about a net $0.06 reduction EPU, which is $0.02 less than we had expected.

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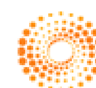

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Of the net $17 million, approximately $9 million is compensation-related with substantially all included in the comp ratio calculation and the remaining $8 million representing increased occupancy costs. We expect a similar $0.06 reduction in full year 2020 EPU due to the relocation, breakeven to slightly positive EPU accretion in 2021 and then EPU accretion for each year thereafter.

We now estimate that our ongoing annual expense savings beginning in 2025, once the transition period is over, to be approximately $5 million higher than we previously discussed and will be in the range of $75 million to $80 million per year.

There's currently no change to our estimates of ranges for cumulative transition costs, $155 million to $165 million or expense savings, $180 million to $190 million to be realized over the transition period 2018 through 2024 when our New York City building lease expires. Our estimates for both the transition costs and the corresponding expense savings are based upon our best current assumptions of employee relocation costs, severance, recruitment and overlapping compensation and occupancy costs. Our estimates for the timing of both incurring transition costs and realizing the related expense savings are based on our current relocation implementation plan and the timing for the execution of each phase. The actual total charges eventually recorded and the related expense savings realized and the timing of the EPU impact are likely to differ from our current estimates as we implement each phase of our headquarters relocation.

And with that, Seth, Jim and I are pleased to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Dan Fannon of Jefferies.

James John Robert Steele - *Jefferies LLC, Research Division - Equity Associate*

This is actually James Steele filling in for Dan. So my question is on the comp ratio. I'm just curious as to what might drag this kind of toward the high end or above your range. I guess we would have expected it might have come in a bit higher, just given where performance fees were this quarter.

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO*

This is John. In terms of where we came in for the fourth quarter, we were able to leverage that down with the increased rise in the market. And then also, as we got into the fourth quarter, we true-up our compensation requirements on an individual-by-individual basis for each SPU. So that allowed us to actually bring the ratio down.

Then starting off for the year, again, we're going to start at 48.5%, which is actually a full percentage point lower than where we had started a year ago, and it's really a function of where we're starting off with the AUM. Our AUM, starting this year, it's about $110 billion higher than where we had ended the prior year, and that's translating into much higher base fees, much higher revenue and allowing us to leverage that comp ratio down.

James John Robert Steele - *Jefferies LLC, Research Division - Equity Associate*

Got it. And then secondly, just on the AXA mandate termination, just curious on, I guess, where those assets are going, if you know why it was terminated. And then if you could just kind of help us where those assets currently sit. Is it taxable fixed income or somewhere else?

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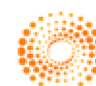

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Seth Perry Bernstein - *AllianceBernstein Holding L.P. - CEO, President & Director*

Yes. As you may or may not know, AXA has its own in-house money manager, AXA investment managers. And our understanding they will move that in-house. It was all taxable fixed income.

Operator

Your next question comes from the line of Mike Carrier of Bank of America.

Michael Roger Carrier - *BofA Merrill Lynch, Research Division - Director*

So overall, just on the flow side, I mean you guys pointed out, like the flows are strong, both on the Retail and Institutional side, and the pipeline looks good. I guess just one follow-up on the AXA, just given maybe their relationship or your guys' relationship with them and what remains, like is there -- like more of the assets that potentially go like in-house. Or was this sort of like a one-off? I know the fees are low, but just so we kind of can gauge what that relationship is going forward.

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

Well, look, as I -- Mike, it's Seth. Thanks for the question. As we've discussed in the past, ultimately, AXA having sold out its ownership stake would, over time, we thought moved to more of an arm's-length business partnership. And we -- while we have continued to enjoy inflows and specific strategies with them in 2019, we knew that it was a potential possibility that they would begin to bring assets in-house, which they've decided to do. We don't know what their long-term plans will be. But as I said to you earlier, I think it will move to be more of an arm's-length relationship. So they're pleased with the overall level and service performance that we are providing today.

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO*

And Mike, it's John. Just to add to Seth's comments, we've looked at the total combined AXA and Equitable relationship, and we've disclosed that it's roughly 25% of our total AUM, about 5% of our fees. But when you break that down, the Equitable piece now is much larger than the AXA piece, both in terms of assets under management as well as the revenues that are derived from those assets.

Michael Roger Carrier - *BofA Merrill Lynch, Research Division - Director*

Got it. Okay. That's helpful. And then maybe just one more on expenses and margins. I think this is a while back, but you guys, I think, had like a 2020 margin kind of range. I think it was around that 30%. And then you got the kind of the Nashville efficiencies that will come in over the next couple of years.

Just maybe bigger picture, just given what you're seeing in terms of the momentum on the flows and even the fee rates and where you're investing and where you think you can get some incremental operating leverage, how are you thinking about maybe the margin over the next few years based on like the core business plus with the Nashville synergies coming into play?

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO*

So Mike, it's John again. Again, we are still committed to the 30% margin, and we're going to definitely get there. We just don't think it's likely in 2020, unless we get markets like we had last year. And if we had markets like we had last year, we'll definitely be there. But the markets are much more of a driver than the flows in terms of bringing up the AUM and the base fees and the performance fees as well. So we're still targeting that 30%. We're going to get there. Again, if we get really strong markets in 2020, we could potentially get there, but we just don't think it's likely.

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James Andrew Gingrich - *AllianceBernstein Holding L.P. - COO*

I guess what I would say also is that, look, nobody is happy with 27.5% margin. We think the margins can be higher. And we've always talked about a 50% incremental margin as we can drive revenue, and we remain committed to that. So as John is saying, to the extent that we can see higher revenues, that's the easiest path to get to a higher margin level, be it 30% or higher.

Operator

Our next question comes from the line of Alex Blostein of Goldman Sachs.

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

Seth, a little bit of a bigger-picture question for you. So when we take a step back, AllianceBernstein has been one of the best flowing asset managers in the space with pretty attractive fee rates. So one could argue that your organic fee growth is top decile. When you look at the valuation, it -- stock has been sort of stuck here at around 11x earnings. So anything you guys could do to help unlock shareholder value given the strong top line growth?

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

Got it. I thought we were already trying to do that with the results we're generating. Look, I don't think there are obvious levers for us to pull that we aren't pulling today. We have been proactive in addressing what we think is a structural cost challenge, and be it long-only industry by trying to utilize technology to automate lots of processes. And I think more importantly, in the short term, relocating our headquarters to Nashville. I think those were important steps that are still in execution and people are working very hard to achieve our objectives there. But Alex, from our perspective, we think we're doing what we're supposed to do. We're focusing on blocking and tackling, focusing on finding new teams that can help supplement the suite of strategies we currently feel and continuing to retain and attract really talented people. Beyond that, I think there's not a lot we can do.

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

Yes. That was kind of the point. Sorry if the question didn't come out that way. You guys are executing on the initiatives that you outlined. It's just not resonating in much of a multiple improvement, and it feels like a lot of it ultimately has to do with the structure with K-1 and obviously the ownership. So any updated thoughts around, I guess, on that front would be helpful.

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO*

Alex, it's John. I think in terms of when you look at the folks that have converted the alt managers and you look at us, we're very different, right? So our trading, market cap is about $3 billion. And of that $3 billion, roughly 1/3 of that is held with employees and directors. So it just doesn't trade that much. Some of the other folks that have converted their trading, market caps are going from $12 billion up to $80 billion. They're trading several million shares a day. We're trading $300,000.

So -- and we also have -- we're controlled. We have a controlling parent that has an economic interest of 65%. So much different than the other folks. And so it's not clear to me that a conversion actually helps our unitholders from that perspective. And there's incredible tax leakage involved in something like that. And then also, too, with an election coming up, once you convert, you can't go back. And last time I checked, I think it's all of the democrat. Democratic candidates are calling for increased corporate taxes. So I just don't think this is something that makes sense for us.

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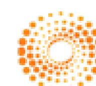

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Alexander Blostein - *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

Got it. All right. Fair enough. My second question is around the expenses. I think you guys talked about the margins overall. But help maybe dissect what's going on in G&A. I gave -- you gave a couple of bullet points on kind of core G&A growth. I think it was around 4% for 2019 when you ex out some of the errors in the FX dynamics. But as you're looking out into 2020, what sort of a reasonable G&A growth and off of what base you would be, I guess, considering that?

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO*

Yes. No, I think, again, off the current base, when you strip out those items I mentioned, we would be looking to grow it around the rate of inflation. So I think we're talking 2% to 3%. And that growth in the G&A, I think, going forward, is primarily driven by many of our technology initiatives that we're investing in technology across multiple business lines that we have, both for the client experience as well as for the portfolio manager to give them better tools to do their jobs.

Operator

Our next question comes from the line of Bill Katz of Citi.

William R. Katz - *Citigroup Inc, Research Division - MD*

Okay. Most of my questions have been asked. I guess maybe just on performance fees. Just wondering, can you give us a sense of where you are in terms of performance fee-eligible AUM, how that may have changed year-on-year and then how to think about any of the seasonal locks that -- as we think about 2020?

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO*

Yes. So I think it's just over 5% of our total assets now are performance fee-based. The biggest part of that is in the Private Wealth business, which is about 9%; and then the Institutional, about 8%; and Retail is very small. But that's where we are. It's been slowly creeping up. We are seeing some of the -- on the Institutional side, some of the recent equity mandates are coming in with perhaps a bit lower (inaudible) than in the past, but also include a performance fee as well.

So we are seeing, on the institutional side, more interest in performance fees. We're also seeing more interest as well as on the Private Wealth side as well, but it's slowly creeping up.

William R. Katz - *Citigroup Inc, Research Division - MD*

Okay. And just as a follow-up, just within the other bucket. Could you maybe talk a little bit about your opportunity to sort of see for growth in the alternative segment as we look out to 2020 and beyond?

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

We continue to focus on private alternatives, in particular, Bill. And so we are continuing to uncover teams where we think they have really compelling investment proposition and a proven track record, who we think we can get to scale fairly quickly. That's our appeal to them. And we have nothing to report at the moment, but there are ongoing discussions. And our goal is to add additional teams this year and each year going forward.

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James Andrew Gingrich - *AllianceBernstein Holding L.P. - COO*

And I would just add, within our existing suite of services, the flows remain quite robust, Bill.

Operator

And our next question comes from the line of Robert Lee of KBW.

Robert Andrew Lee - *Keefe, Bruyette, & Woods, Inc., Research Division - MD & Analyst*

Maybe following up to Bill's question a little bit on the alternatives. I'm just kind of curious, I guess, a lot of your alternative business, as you point out, comes from the Private Wealth segment, but can you talk a little bit about maybe what success and what you're seeing in broadening your alternatives, distribution, the institutional channels, kind of what proportion of kind of your new business is coming from outside Private Wealth and kind of some of your initiatives there?

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

Let me start, then I'm going to actually defer to Jim later on. He may have something to add here. But for the private credit strategies, whether it's commercial real estate debt or middle-market lending, I believe, a preponderance of their flows are coming now from institutional clients. And we've seen particular interest among insurers, both here in the United States, but also outside the U.S. for those assets, and they continue to be interested in different strategies that we're developing within those groups.

Jim, do you want -- do you have anything to add?

James Andrew Gingrich - *AllianceBernstein Holding L.P. - COO*

Yes. I guess I would say a couple of things. One is, is that in our wealth management business, our clients remain underexposed to alternatives. So it is -- it remains an essential part of our strategy to expand our Wealth Management business as well as in terms of attracting new clients as well as additional penetration within the client base that exists today.

As Seth said, whether or not we're talking about Arya, which is our multi-PM, long-short strategy, our securitized fund, our middle market lending capabilities or our commercial lending capabilities in the real estate space, all of those are experiencing very nice growth in Institutional. And I guess I would add, we also think there's opportunity in traditional retail space for those types of strategies as well.

So as I indicated earlier, we're pretty excited about the opportunities we have within the set of services that we have today as well as our ability to add new services and scale them over time.

Robert Andrew Lee - *Keefe, Bruyette, & Woods, Inc., Research Division - MD & Analyst*

And maybe sticking with the Private Wealth channel. I mean, Seth, you've mentioned 6% was kind of towards the high end of your expectations for adviser head count. But can you maybe update us on kind of what you're thinking about channel for adviser growth over the coming years? And maybe any current plans to go back to expanding the footprint somewhat? Or is it kind of just fill in within the existing footprint?

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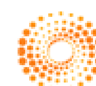

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Seth Perry Bernstein - *AllianceBernstein Holding L.P. - CEO, President & Director*

We think we have enormous opportunity within our existing footprint to expand beyond where we currently stand today. So we think we're underpenetrated in a number of cities outside of New York that we've grown in. We just opened in Nashville, as you know, and we continue to see real interesting activity there as well as in our other offices.

But with respect to the head count, we're looking for, we are hoping to see 5-odd percent kind of growth rate year-over-year there. We think that's about as fast as we can manage to grow organically, just given the commitment to education we make on each new client financial adviser we bring in.

James Andrew Gingrich - *AllianceBernstein Holding L.P. - COO*

I guess I'd also say we remain very focused on growing the productivity of the advisers that we have in place. And as outlined in the presentation, our track record is pretty strong there, and we -- but we still think we have real opportunity for that to continue.

Operator

There are 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. Thank you, everyone, for participating in our conference call. Feel free to contact Investor Relations with any further questions. Have a great day.

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