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# EDITED TRANSCRIPT

AB.N - Q2 2021 AllianceBernstein Holding LP Earnings Call

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## PRESENTATION

**Operator**

Thank you for standing by, and welcome to the AllianceBernstein Second Quarter 2021 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 the host of this call, Head of Investor Relations for AB, Mr. Mark Griffin. Please go ahead, sir.

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

Thank you, Angie. Good morning, everyone, and welcome to our second quarter 2021 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, President and CEO; and Ali Dibadj, CFO and Head of Strategy. Kate Burke, COO, 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 second quarter 2021 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.

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

Thank you, Mark. Good morning, and thank you for joining us today. In the second quarter, we continued to grow organically across all 3 channels for the third time in the last 4 quarters. Geographic diversification and differentiated client-focused offerings across active equities, including ESG, multi-asset municipals and alternatives led the way. Our short- and long-term investment performance improved across both equities and fixed income, while our record institutional pipeline maintained an annualized fee base above $50 million. For the quarter, we posted active organic





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growth of 4% while expanding our adjusted operating margin to 31.7%. We delivered 49% growth in both adjusted earnings per unit and distributions per unit holder.

Let's get into the specifics. Starting with the firm-wide overview on Slide 4. Gross sales were $45 billion, or $36.3 billion net of sales associated with the Venerable transaction. Once again, the quarter sales were second only to pre-financial crisis levels 14 years ago. Ex-Venerable, sales were up $4.5 billion, or 14% from a year ago, and up 9% from the prior quarter. Firm-wide active net flows were $6.7 billion, a 4% annualized organic growth rate and were up 5%, excluding AXA's redemptions and the Venerable transaction. Quarter end assets under management of $738 billion rose 23% year-over-year and 6% from the prior quarter. An average AUM of $723 billion increased 25% year-over-year and 5% sequentially.

Slide 5 shows our quarterly flow trend by channel. Firm-wide second quarter net inflows of $6.2 billion represented a 4% annualized organic growth rate. Net flows were positive in each channel for the third quarter of the last 4. Retail generated its second strongest gross sales ever with net inflows of $5.2 billion as growth in active equities and munis more than offset moderating sequential outflows in taxable fixed income, once again highlighting the balance in our retail business.

Institutional sales of $8.9 billion, excluding the Venerable transaction led to net inflows of $900 million, driven by our multi-asset retirement solutions and active equity. In Private Wealth, gross sales increased 4% year-over-year while declining 33% sequentially. Net inflows of $100 million reflected continued client engagement in what has historically been a seasonally slower quarter sequentially.

Now let's turn to investment performance beginning on Slide 6. Starting with fixed income. In the second quarter, yields diverged amongst developed markets, rising in Europe as growth expectations lifted with vaccine rollouts while in the U.S., the 10-year yield fell by 27 basis points to 1.47%. U.S. bond returns were positive and in developed markets, credit outperformed governments as investors looked through near-term transitory inflationary surges.

Our fixed income performance continued to strengthen as 91% of our fixed income assets outperformed over the 1-year period, 69% of assets outperformed over the 3-year period and 68% over the 5-year period. Our offerings generally benefited from an underweight to duration and an overweight to credit. Strategies of global and multi-sector credit positioning included global high yield, which ranked eighth percentile in the quarter and American Income, which ranked 28.

Tax exempt continued to post outstanding relative performance with 6 of our 10 retail municipal funds in the top decile of their Morningstar peer group across all periods and all 10 in the top quartile across all periods. Our tax aware vehicles, including SMA, continued to drive double-digit annualized organic growth rates.

Turning to equities. Equity markets continue to rise in parallel of earnings expectations with the S&P 500 up 8.6% and the MSCI world up 7.7% in the second quarter. Through June, the S&P 500 was up 15% year-to-date, while the S&P 500 earnings expectations had risen by 13% over that same period. Interestingly, factoring out dividends, the return this year has almost exactly matched the rise in earnings expectations.

In equities, our percentage of assets outperforming strengthened in each time period shown, improving to 44% for the 1-year period, 66% for the 3-year period and 71% for the 5-year period. Growth stocks regained favor in the second quarter after lagging in prior quarters with much of the outperformance of growth stocks occurring later in the quarter as longer-term interest rates retraced.

Our Large Cap Growth, global core and concentrated U.S. and global growth strategies outperformed aided by stock selection and sectors, including health care and technology. Our equity platform continues to benefit from broadened global distribution relationships in countries like Japan as well as expanded services to existing clients, which we'll focus on in the next section of the clients -- on client channels.

Beginning with retail on Slide 7. Once again, gross sales were the second strongest on record, up 22% year-over-year and up 4% sequentially. Net inflows were $5.2 billion, driven by an 18% annualized organic growth in the active equities, our 17th straight quarter of active equity inflows. We continue to drive positive flows in U.S. retail and Japan. Municipals grew by 23% annualized, helping to offset taxable fixed income outflows, which moderated sequentially as American Income redemptions improved by $1.6 billion versus the prior quarter.





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As shown on the upper left chart, a balanced and diverse product offering continues to drive consistent organic growth with the retail channel generating positive net inflows, 10 of the last 12 quarters. We remain globally diversified with the U.S., 39% of sales; Japan, EMEA, LatAm, 33% of sales; and Asia, ex-Japan, 28% of sales. We now have 62 products of more than $1 billion each balanced across asset classes as compared to with 48 just a year ago.

On a net flows basis, our U.S. equity funds ranked 9th out of 453 managers. International equity funds ranked 21st out of 253 managers and munis ranked 14th of 111 managers. Several notable individual funds are shown on the bottom right.

Turning to institutional on Slide 8. First quarter gross sales of $8.9 billion, excluding the Venerable-related sales were up 1% year-over-year and up 82% sequentially. Active equity sales of $2.8 billion more than tripled sequentially driven by European value, US SMID Cap Growth and U.S. Concentrated Growth. This was the 12th of the last 14 quarters in which active equity posted net inflows. $4 billion of CRS, Customized Retirement Solutions; and LIS, Lifetime Income Solutions, funded in the quarter. LIS passed the $5 billion AUM milestone this quarter, ending above $6 billion, a solid achievement for this growing platform.

Also in the quarter, Equitable seeded a $50 million merger arbitrage vehicle, a strategy for which we are seeing active interest given its strong 3-year track record. Fixed income sales slowed in the second quarter with outflows driven by the Venerable transaction and the last of the AXA-related redemptions. We've now incurred $13.1 billion in lower feed AXA redemption since we announced them in early 2020, and this redemption program is now essentially complete.

Our institutional channel has grown organically, inclusive of these redemptions, highlighting the strength of our globally diversified, differentiated solutions, broad client relationships and talented teams. Our ESG portfolios with purpose grew to $25 billion, up 17% sequentially, driven by our U.S. and Global Sustainable Thematic platform for which RFPs were up 3x in the first half of the year versus the prior year period. We launched the AB sustainable income portfolio and also concluded AB's Climate Change Investment Academy, a first of its kind collaboration with Columbia University, which enrolled over 1,000 clients around the world.

The Academy Integrated scientific and academic analysis of how climate change can affect investment risks and opportunities for macroeconomic to issuer levels. Our institutional pipeline grew to a record $17.8 billion at quarter end, up 17% sequentially, driven principally by a large $8 billion CRS mandate. The annualized fee base exceeded $50 million, or 18% compound annual growth since we began tracking in 2011, with alternatives over half the fee base.

Moving to Private Wealth Management on Slide 9. Gross sales of $3.6 billion increased 4% year-over-year and declined 33% sequentially. Combined with lower redemptions, we generated net inflows of over $100 million, reflecting a sequential seasonal slowdown. We built on our successful cash campaign earlier in the year with a new tax aware campaign, which is highly relevant in today's environment.

We raised $58 million in Qualified Opportunity Fund focused on tax-efficient investing and $103 million in the second close of our private equity fund of funds. We also launched 2 new products, Sustainable Intermediate Duration bond fund an ESG offering and Global Disruptors ,a technology and innovation-focused fund. Our proprietary separately managed equity loss -- tax loss harvesting product now stands at over $1 billion, up 41% sequentially. Our muni impact in the ESG portfolios continue to grow strongly, as shown on the bottom right.

I'll finish our business review with the sell side on Slide 10. Bernstein Research revenues decreased by 7% year-over-year and were down 11% sequentially, reflecting more normalized institutional trading volumes as compared with more volatile prior periods. Growth in Asia remained healthy with trading commissions up 20%, and India continues to ramp strongly. We are successfully engaging clients as evidenced by our 37th Annual Strategic Decisions Conference. Executives attended from 173 of the world's largest and most influential companies with over 2,600 investors up 30% year-over-year. Once again, research checks increased year-over-year, and we ranked highly in the most recent Greenwich U.S. portfolio manager surveys, as exemplified by being ranked #1 in best high-quality written research and first in the most intense sales coverage.

I'll close our business overview with progress toward our strategy in the second quarter on Slide 11. Our investment performance improved in the quarter, with 2/3 or more of equity and fixed income assets now outperforming in both the 3- and 5-year period. Near-term performance in fixed income continued strong at 91% of assets outperforming, while equity improved sequentially to 44%. Our geographic and product balance has



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now driven organic growth across all channels in 3 of the last 4 quarters with retail positive 10 of the last 12 quarters and institutional positive 8 out of the last 9 quarters.

Private wealth grew for the third of the last 4 quarters with active client engagement across our growing inflation and tax aware suite. Our ESG portfolios with purpose stand at $25 billion in assets under management, up 17% sequentially, and we're growing at double-digit annualized rates in alternatives, multi-asset and municipals. We are committed to managing our business to deliver strong incremental operating margins. Our second quarter adjusted operating margin of 31.7% was up 380 basis points year-over-year, with adjusted earnings and unitholder distributions up 49% versus the prior year period.

Now I'll turn it over to Ali Dibadj to review the financials followed by an update on our strategic relationship with Equitable. Ali?

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**Ali Dibadj** - *AllianceBernstein Holding L.P. - CFO & Head of Strategy*

Thanks, Seth. Let's start with the GAAP income statement on Slide 13. Second quarter GAAP net revenues of $1.1 billion increased 24% from the prior year period. Operating income of $284 million increased 35% and operating margin of 26.0% increased by 430 basis points. GAAP EPU of $0.91 in the quarter increased by 54% year-over-year.

As always, 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 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 talk through the P&L shown on Slide 15.

On Slide 15, beginning with revenues. Net revenues of $881 million increased 26% for the second quarter versus the same prior year periods. Base fees increased 26% for the second quarter versus the prior year period, reflecting 25% higher average AUM, which grew across all 3 distribution channels and a 1% higher fee rate. The second quarter fee rate of 38.7 basis points was marginally higher sequentially. We continue to believe that although our fee rate may be volatile from time to time, given large mandates such as the $8 billion CRS mandate added this quarter that may skew averages, the long-term trend should be grinding higher.

Second quarter performance fees of $54 million increased by $45 million versus the prior year period due primarily to our U.S. select equity long/short fund and our private middle-market lending business. Second quarter revenues for Bernstein Research Services, decreased by 7% from the second quarter of 2020, reflecting higher client trading activity a year ago, driven by outsized market volatility amid the onset of the COVID-19 pandemic.

Moving to adjusted expenses. All in, our total second quarter operating expenses of $602 million increased 20% year-over-year. Total compensation and benefits expense increased 26% in the second quarter due primarily to higher incentive compensation and secondarily to higher base compensation, both of which were driven by higher revenues. As we guided to, compensation was 48.5% of adjusted net revenues for the second quarter, flat with the prior year period. If our current revenue trends continue, we may accrue compensation at a 48.0% ratio for the second half of the year with the option to adjust accordingly if market conditions change.

As stated previously, expectations for our full year comp ratio should consider that performance fees have become a bigger piece of our mix, which may drive the comp ratio up. Moreover, as previously mentioned, we expect fringe benefits should ramp up this year post COVID.

Promotion and servicing costs increased 12% in the second quarter due to higher transfer and marketing-related expenses as well as modestly higher T&E. Looking forward, we expect promotion and servicing spend levels to begin to return closer to more normalized levels in the second half of 2021 as travel and meetings resume, though the pace at which these pickup remains uncertain.

All in, G&A expenses increased by 8% in the second quarter versus the same prior year period, or 6%, excluding Nashville relocation-related occupancy expenses. For the second quarter, higher portfolio service costs due to fund launches and platform build-outs, including our European





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commercial real estate debt platform as well as higher professional fees, trading errors and foreign exchange translation drove the increase. We continue to expect full year G&A expenses, excluding the Nashville relocation to be aligned with inflation, but note that we do expect that inflation will likely be higher going forward.

Within other expenses, intangible amortization expenses declined by $5 million from a year ago, once again reflecting the absence of the historical quarterly amortization charge associated with the Bernstein acquisition. Second quarter operating income of $279 million increased 43% versus the prior year period as revenue growth outpaced expense increases.

Second quarter operating margin of 31.7% was up 380 basis points year-on-year, reflecting the operating leverage of our business. The incremental second quarter margin was 46% as compared to the prior year period. We continue to manage the business to an incremental margin of 45% to 50%, not necessarily every year, but on average over time. The second quarter effective tax rate for AllianceBernstein L.P. was 4.4%. We now expect an effective tax rate for 2021 of between 5% to 5.5%, down from prior guidance of 5.5% to 6%, reflecting a greater mix of domestic sourced earnings.

I'll finish up with an update on our planned corporate headquarters relocation to Nashville, which continues to go well. At quarter end, we had 864 Nashville-based employees, nearly 70% of the way to our target of 1,250. For our major offices in the U.S. and EMEA, we began returning to the office in July, which included moving into our new downtown Nashville headquarters building. The new building at [Fifth and Commerce], which received a silver lead rating as well as the well health safety seal is an integral part of our unique state-of-the-art mixed-use complex, which includes the National Museum of African-American Music. We're thrilled to welcome back employees into this wonderful headquarters building, and they will enjoy best-in-class amenities.

Our new headquarters will also benefit from robust critical system architecture to ensure operations under adverse conditions. For the second quarter, estimated expense savings related to our Nashville corporate headquarters relocation totaled $10 million compared to a transition cost of $8 million, resulting in a net $2 million increase in operating income or approximately $0.01 per unit. Of the net $2 million, approximately $7 million is compensation-related savings, offset by $5 million of increased occupancy costs.

For 2021, we continue to expect accretion of around $0.02 per unit increasing each year thereafter. We continue to expect ongoing annual expense savings beginning in 2025, once the transition is over to be towards the upper end of the range of $75 million to $80 million. On last quarter's earnings call, we highlighted our private alternatives business and our path to become a global leader in private alternatives. This quarter, we thought it would be helpful to spend a few minutes to discuss in further detail our virtuous cycle with Equitable, especially in the context of recent insurance and asset manager news flow.

Turning to Slide 18. As the time line shows, AB and Equitable have accelerated our strategic relationship in recent years towards growth. Starting from the left, as part of our long history together, Equitable and its predecessor, AXA, have played a critical role in the development of our private illiquids platform, beginning with the first seed investment in 2013. Since that time, Equitable and AXA have invested a combined $6 billion in committed capital and private alternatives, including the most recent commitment of $1.2 billion, which enable us to seed our new European commercial real estate debt platform. Matt Bass discussed the evolution of this portfolio of offerings on last quarter's earnings call.

The pace of our collaboration and vision to build businesses together has accelerated since Equitable's 2018 IPO. In fact, earlier this year, AB C-Suite joined the Management Committee of Equitable, ensuring further definition, alignment and execution on strategic objectives between our 2 companies. We've also recently updated our long-standing investment management agreement with Equitable. Equitable has also agreed to provide permanent capital, which is investment capital of indefinite duration to AB and in doing so has helped initiate the virtuous cycle that exists between our 2 companies. This virtuous cycle occurs as Equitable seeds and invest it's long-dated assets in AB's current and expanding private illiquids platform, which provide an improved risk-adjusted yield for Equitable's general account.

AB benefits by delivering differentiated service to Equitable and its other clients while growing its longer-dated higher fee and higher multiple alternatives offerings. All of this enables Equitable to meet its own objectives while growing a high multiple business, of which it's the majority owner. It is important to note that Equitable and AXA's initial capital commitments have allowed for a powerful multiplier effect, driving a 4x increase from seeded AUM to at-scale AUM from third-party committed capital for these businesses.





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Today, we're pleased to inform stakeholders that Equitable is committing to provide $10 billion in permanent capital over the next 3 years to build out AB's private illiquids offerings even further, including private alternatives and private placements. This is almost twice the amount of total seed capital we have already at AB, which has grown to our current $20 billion in AUM private alternatives business. Our private placement business is another $12 billion in AUM. We expect this anticipated capital from Equitable will perhaps not immediately, but over time, accelerate both organic and inorganic growth in our private alternatives business, allowing us to continue to deliver our clients -- to our clients, employees, unitholders and other stakeholders.

Slide 19 shows that AB currently manages $121 billion for Equitable, of which 64% is the general account and 36% is a separate account and other. As a percentage of Equitable's total general account, AB currently manages approximately 75% of the GA. The $10 billion of permanent capital over the next 3 years, some of which will be incremental net flows to AB, and some of which will be reallocation, significantly enhances AB's growth prospects. Again, considering the past seed investments has realized 4x growth in committed capital from other clients.

Slide 20, which we showed last quarter, highlights our organic and inorganic growth strategy in alternatives. The $10 billion of permanent capital from Equitable will allow us to grow our core through scaling existing funds, follow-on funds and new funds targeting new client segments as well as existing -- extending into adjacencies. On the organic -- inorganic side, Equitable's permanent capital commitment will enhance our ability to attract and retain highly qualified teams, in turn, allowing AB to fill gaps while focusing on scalable and higher-growth markets.

Slide 21 highlights the large valuation differential between traditional and private alternative managers, just as a reminder to all of us. Equitable's permanent capital will help us accelerate growth into a higher multiple business, combined with a multiplier effect shown through Equitable's prior commitments. We anticipate that growth in private illiquids should be accretive to our valuation, not overnight, but over time.

Finally, on Slide 22, we further highlight the benefits to both AB and Equitable of the virtuous cycle. Equitable is able to enhance its general account income through appropriate risk-adjusted returns and diversification and ensuring capacity in priority asset classes. AB remains focused on delivering superior investment performance and expanding our differentiated services to our clients, especially private alternatives.

In conclusion, we feel privileged to have a like-minded partner owner in Equitable. We've learned from what some of our traditional and private alternatives competitors are doing in industry and believe our relationship with Equitable is a long-term competitive advantage for AllianceBernstein.

Now I'll turn it back to Seth.

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

Thank you, Ali.

Turning to Slide 23. In the first quarter, we continued to make progress on the dimensions we've previously outlined. Namely, we drove a 4% active annualized growth rate spanning across each channel led by active equities, multi-assets and municipals. We expanded our suite of higher fee alternatives with equitable funding our Euro credit platform and seeding a new merger arbitrage vehicle. As Ali just highlighted, Equitable's $10 billion commitment to private illiquids over the next 3 years will significantly accelerate our opportunity set and aligns with their strong mutual interest in growing our yield-enhancing alternative strategy. We drove healthy incremental margins in the quarter in line with our long-term goal. As a partnership, we have a durably low tax rate, and we will pay a distribution of $0.91 per unit for the second quarter for a robust trailing 12-month yield of 7% in a low-rate environment.

With that, we're pleased to take your questions.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Your first question comes from the line of Bill Katz with Citi Group.

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**William Raymond Katz** - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

I appreciate the added disclosure. Super helpful this morning. Maybe we could start with that on the insurance side. Could you talk a little bit about just a little more detail on the underlying economics on the $10 billion? It sounds like some of it may be new, some of it may be replacement. But maybe you could help us with where you are today in terms of insurance-related revenues coming off of Equitable and then how you sort of see the $10 billion coming through the P&L.

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**Ali Dibadj** - *AllianceBernstein Holding L.P. - CFO & Head of Strategy*

Sure. So thanks, Bill, for the question. We think this is a meaningful step for AllianceBernstein and Equitable. This type of things should not be unfamiliar to people like yourself who cover some of the private alternative firms as well, and you see them in the newsflow. It is $10 billion. And you're right that it is some incremental, some reallocation but all to our illiquids suites so private placements and private alternatives, which as you know, are generally, not always, but generally higher fee areas to manage. The benefit that we get on top of that is we have a track record of taking that AUM and multiplying it by about 4. We hope that track record continues.

And in doing that and in thinking about that, we certainly have a glide path that we've developed together with Equitable. We won't dimensionalize much further about exactly what we're going to do with the $10 billion, how we're going to grow it. It's a little bit of a freedom to build new businesses together for Equitable and for AB, serving their need to improve their yield and our desire on behalf of unitholders and employees and other stakeholders to grow our private alternatives business. But it could be organic or inorganic growth prospects. As we mentioned in the prepared remarks, we manage about $121 billion for Equitable. And we have about 75 -- just for sake of background, that 75 insurance clients that we serve as well. And we think that what we're building conservative more insurance clients even more growth for us, exactly as Seth said in his remarks as well.

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**William Raymond Katz** - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

Okay. It's helpful. And then just my follow-up question. To unpack maybe the expense discussion a little bit. If I look at your G&A, it was up pretty measurably and there's a whole bunch of things that sort of fall into that. So sort of wondering like what's the exit pacing on that. And then in line with your commentary around sort of the normalization, whatever that might mean for the second half of the year, how should we be thinking about just sort of the pace of growth in the promo line? And is 2019 still the right baseline to be sort of modeling back to? Or are there other offsets along the way that can maybe temper some of that normalization?

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**Ali Dibadj** - *AllianceBernstein Holding L.P. - CFO & Head of Strategy*

Sure. Let's dis-aggregate that question into 2 buckets, one about G&A and one about T&E in particular, given that's in promo and servicing. From a G&A perspective, as you can tell, G&A has grown 8% on a year-over-year basis. That includes a relocation expense from Nashville. If you were to take that out, the Nashville relocation, you'd be talking about something like a 6-ish percent type growth in G&A. And that was driven by a few things, right? Some of them are very much along the plans that we had in terms of growth, higher portfolio costs for launching new products.

For example, our European commercial real estate debt platform, which also is in partnership with Equitable. There are some higher professional fees in there, some trading errors, FX. Those types of things are in that number, and we expect that to continue as the year goes on.





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Now what I'd say is, we also continue our guidance previously to stick, which is that excluding the Nashville relocation costs, we would expect that G&A would grow with inflation. Now as we've said in our prepared remarks, we think inflation is probably a little bit higher now than it was before, but that guidance really doesn't change. And by the way, just by way of interest, we are seeing in the G&A line, some real inflation coming from market data costs from professional services fees, so our eyes wide open about managing that, but that will continue. So that's kind of the G&A part.

Now you mentioned promo and servicing and obviously, the big driver of that for us is watching T&E, watching for meetings. And look, there (inaudible) it's hard to say, right? It's hard to say what's going to come out over the next little while here. We're all watching delta and being very careful. What I will say is that in some of those T&E expenses, for example, some of those for meetings, we've, year-on-year, doubled and sometimes tripled the cost of those, i.e., things are ramping back up. Think about what we're doing in Asia, as an example, those are ramping back up.

So those costs have doubled or tripled so far. But still, they're significantly -- to your run rate question, they're significantly lower than what we saw in 2019, call it, we're below 20% kind of numbers of our 2019 run rate. So there's a lot more room to run here from an upside perspective. And we'll watch that. I don't have a great answer to you. What I do know is for all of our sakes -- look, I'd certainly like to see some savings relative to 2019 numbers. But for all of our sakes, I sure hope that we get to see client live, see colleagues, see partners and yes, even see you, Bill, live over the course of the next few months here. So we'll just watch it carefully.

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**Operator**

Your next question comes from the line of John Dunn with Evercore ISI.

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

Just thinking about framing the puts and takes of flows in the Private Wealth channel. You mentioned fund launches, tax harvesting and seasonality. But can you maybe talk about some of the other drivers in or out?

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

Sure. Ali, I can take that one. Thanks for the question. So not only did we continue to see strength in our cash campaign from earlier in the year where we were having clients near out of cash and back into the more active markets. We also launched a new tax-aware campaign, which we think is highly relevant in today's environment. And so there, you're seeing the wealth advice continue to drive a lot of our client engagement with us. We will see additional product launches in the back half of the year. In alternatives, ESG and the SMA platform, to continue to invest in that space and to provide what we think are good additions to our core offering for particularly our complex and high-value clients, which continue to grow nicely and are a substantial portion of our net inflows year-to-date.

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

Got you. And then U.S. growth equities continues to do really well. Can you kind of give us a regional breakdown of where that demand is coming from?

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

Sure. The demand has been principally in the United States and in Japan. And Japan has been particularly prominent for us this year. But it's been a pretty strong performer for us globally.

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**Operator**

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

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**Sheriq Sumar** - *Goldman Sachs - Equity Analyst*

This is [Sheriq] filling in for Alex. My question is on retail. We have seen some strengths lately here across the industry. So what's driving the inflows at AllianceBernstein? And how sustainable are these flows?

And then on the fixed income side, I mean, flows have been pretty strong if you kind of exclude the AXA redemption. So under the current, like, given the outlook for the interest rates going forward, what's your outlook for the fixed income flows to keep sustaining these levels of inflows?

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

Thank you for the question. Look, we have -- and I think we say it in our opening comments, we have had remarkable -- we've had remarkably sustained net inflows particularly in equities over a pretty extended period of time. And it comes from the fact that we have a pretty diverse group of services that have been selling. We've mentioned Large Cap Growth, but we've also had continuing strong interest in our Portfolios with Purpose. Our sustainable strategies, which really have begun to see strong demand both in U.S. and in Europe. And those are taking an increasing share.

We've even seen interest in value, which has picked up pretty nicely from a performance perspective in the shorter term. And we've seen with the maturation of our private alts business, it's still early days, as Ali was alluding to, but we're continuing to see strong take-up in new -- in new efforts to raise money for our U.S. Commercial real estate debt business, for our middle market lending business and so forth. So it's been pretty diversified in those areas. But I would also add that we've seen more activity in our multi-asset group.

Now that could be quite lumpy as we indicated in our comments, specifically our target date -- I'm sorry, our customized retirement solutions tend to be very large, although the fees are lower there and in LIS. So that diversity has played to our strength. In fixed income, look, we think rates have a likelihood of going higher from here. But remember, we've seen quite a rally in rates that have taken us back down again over the last month. And we don't necessarily think that's sustainable. In fact, we do think rates will rise. While most of the inflationary impacts we've seen, are transitional in our view. There are some expectations building in. And certainly, as people in our industry recognize, it's harder to hire people. There's a real shortage of talent out there.

So there are pressures. The consequence of that is we think rates will be rising. That is beneficial for fixed income over time. Yield really does matter to our clients. And so where I look in fixed income, I am actually pleasantly surprised just how tempered the outflows have been. And in fact, they've been moderating further from Asia in our income products. But look, Asian demand has historically been fickle. There are, obviously, other alternatives, whether it's Chinese equities, which may not, at the moment, be performing very well but have been performing previously that have siphoned demand away from higher-yielding services like AIP and GHY.

So look, again, it's -- I think, it's a story of a diversified pool of business. I think our SMA, our muni SMA business here in the U.S. has really seen strong demand growth because I think we offer quite a differentiated service to our clients. And I think tax concerns continue to drive interest in more tax-efficient vehicles. So I think it's a more mixed story for sure than equities and alternatives and multi-asset. But I think it is certainly manageable levels for us given the mix of business we have.

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**Operator**

Your next question comes from the line of Dan Fannon with Jefferies.

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**Ritwik Roy** - *Jefferies LLC, Research Division - Equity Associate*

Seth, Ali. This is actually Rick Roy filling in for Dan. So I appreciate the previous detail given on the G&A run rate. And just as a quick follow-up on that, how should we think about the contribution from some of the more sort of seemingly idiosyncratic items that were detailed in the presentation, kind of what -- for example, the trading errors? And is that incorporated in the guidance you guys mentioned earlier?

And then as a follow-up, kind of more broadly, as you guys think about the eventual normalization of expenses and knowing that you guys mentioned the timing around that is a little uncertain. How much would you guys say you're underspending relative to pre-pandemic levels? And to what degree would you say the savings will be sticky? And if you could provide any numbers around this.

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**Ali Dibadj** - *AllianceBernstein Holding L.P. - CFO & Head of Strategy*

Sure. Thanks, Rick. So 2 parts to that question, right? One is on some of the kind of one-off things in our G&A. You mentioned trading errors in particular, I can tackle that head on. Look, no one wants trading errors in, ever, but it's part of the business, right? Sometimes these things happen, sometimes they're bigger than others. Everybody has them, right?

So you don't model for it, you don't plan for it, but what we've seen in our rearview mirror in terms of errors and all the other idiosyncratic impacts to our G&A is in our guidance. So as we look for the full year, we expect it to be in line with inflation if you take away the Nashville relocation cost, and we stick to that and believe in that. Again, we'll manage these idiosyncratic events as we go along, but that is our guidance. And we believe even what we've delivered so far, leads us very well to get to that point by the end of the year. So hopefully, that covers that. And it's not just -- there's foreign exchange in there. There's new product launches in there, et cetera, but we still believe that, that is the right guidance.

On broader savings, I guess the way we've articulated it before is that if you think of last year, we would have "underspent" by about $50 million, a little bit north of $50 million. It's an imprecise science. It is what it is, but we think about $50 million, what we "saved" last year versus the 2019 numbers.

Do we think we'll see all of that come back this year? I mean, look, it's halfway through the year, and I gave you a sense of the numbers before, probably not. Our hope is that we can find savings relative to the 2019 number. We haven't articulated exactly how much, but certainly something that we think clients will want to see us differently and colleagues might travel interoffice differently, and so we'll find some savings there. But it's tough to say exactly what level it will be at. There will be some savings, however, in travel and all the other costs relative to that $50 million that we saved in 2020 versus 2019.

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**Operator**

Your next question comes from the line of Robert Lee with KBW.

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**Robert Lee** - *KBW - Equity Analyst*

I mean first one maybe on Private Wealth Management. I'm just kind of curious if you can update us on some of the growth initiatives there. And I guess particularly interested just given the war for talent out there, particularly experienced financial advisers. I mean if you're seeing any kind of pressure on retention or -- and I know you don't necessarily go out and recruit new advisers, you mainly train them yourself. But are you seeing any issues with kind of growing the adviser force as you would like?

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

Sure. Thanks for the question. So in terms of our growth initiatives, we are on plan with our adviser head count. It's up 3% year-to-date and we're on track to hit our 5% growth target for new advisers in 2021. So we continue to have success in finding and attracting great new talent to our





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adviser force. And then as you said, we do grow our advisers. We put them through, I think, the best-in-class training program here. So that when they are out with clients, they're able to really represent the best of Bernstein's investment and wealth strategy advice.

We certainly do know that there is compensation pressure out there in the industry. We continue to pay competitively and are pleased with our existing force and in terms of the turnover we've seen to date, it's pretty much on average with both previous years. And so we continue to watch that and invest back into the business and into our people to continue to keep what we think is a great competitive advantage, both in our adviser force as well as with our investment teams and wealth strategy and advice teams that have been with us for a long period of time.

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**Robert Lee** - *KBW - Equity Analyst*

And maybe as a follow-up, you didn't touch on in the prepared remarks the tax forms being product. And I mean, clearly, you've seen competitors, make acquisitions, invest in kind of direct indexing, similar space. Can you talk about if you have any current plans to take that capability and roll it out through third-party advisers? Or is the current intention to kind of keep that proprietary in-house?

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

I'll start with -- I can start with the first part of the answer, and then Ali can join me, I think, when it comes to how we think about M&A. We're very pleased with our current closed architecture approach. We leverage AB products primarily, though you do see us partner occasionally with an outside firm in an alternative space that we have not yet gone into. But we do primarily -- and do primarily plan to continue to grow via AB vehicles. We have launched, for example, and we're in the midst of launching several purpose-driven offerings in 2021 around sustainable thematic SMAs. That's also in conjunction with our retail team, sustainable credit portfolio in partnership as well and then ESG improvers. And then we continue to look, as we've said, in bottoming out the alternatives platform.

I'll turn it over to Ali to talk about where we think about that in terms of M&A in that construct.

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**Ali Dibadj** - *AllianceBernstein Holding L.P. - CFO & Head of Strategy*

Robert, thanks for the question. Just to build on what Kate said, for us, it's all about the client, right? It's all about what the client needs are and delivering for the client. It's exactly, as Kate mentioned, once we understand what we believe the client wants and what we think we should be delivering to the client, it then becomes a question of buy, build or partner, right? And we have success in all 3, right? We have success in terms of building things. You mentioned, for example, the past products that we have, the tax harvesting product that we have, crossed over $1 billion in very, very quick set, and we want to continue that growth there.

And as we look at even in that sleeve other custom indexing that is out there, we should certainly look at partnering with other folks. If there is a need that's not fulfilled there, but we've built something that's actually quite robust and quite successful. Then there's the buy option, which we look at quite carefully as everybody on the phone, I think, knows, and we believe there's a lot more activity out there. And we've had a pretty good track record, I'd say, an accelerating track record as well of acquiring or hiring investment processes, tools that can support exactly the set at the outset, what our clients want.

And also, I'd say, as Kate mentioned, there's a partnership track. It's not just buy or build. We've really thought long and hard about partnering. We are an integrated architecture in our Private Wealth business, in particular, because we believe that holistic view delivers better for the client. But there are areas where we won't be all things to everyone, and we certainly won't own the investment team so we can partner to bring those through. So we're looking at all 3 dimensions, and it's all under this umbrella of being maniacally client-centric and client-focused.

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**Operator**

Our final question comes from the line of Bill Katz with Citigroup.





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**William Raymond Katz** - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

Just a follow-up -- 2-part follow-up. Can you sort of flesh out a little bit what you're doing on the LIS portfolio? It sounds interesting to me. And then just a conceptual question, just given a lot of the headline risk that we're seeing in the Asia Pac, particularly in the China Mainland area, which, I think, is more of a sort of a direct equity issue, but does that have any spillover effect to co-mingled accounts either in terms of absolute level or maybe the mix of what might be coming in the door?

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

Bill, the LIS is a structure we created some years back in partnership with one of our key institutional clients to build an annuity option in defined contribution plans, 403(b) and 401(k) plans. We have what we think is an interesting option where we can give the planned sponsor access to a number of different insurers for those participants who want an annuity option in their portfolio. As you I think know better than most, there is a fundamental public policy issue facing America today, which is many people who are facing -- looking forward for retirement, are undersaved for their post-retirement period. And the security of having an annuity structure psychologically is very important to a subset of that population.

The Secure Act last year, I think, has -- we shuffled the deck and has made this a much more important initiative for planned sponsors than it was before. It can become the default option now. And so we are seeing little interest there, but these are very long process decisions that take considerable amount of time through the RFP stage and ultimately through awarded execution. So it's a slow-moving train, but we're optimistic there will be opportunities that fall out of that for AB.

Switching over to China, look, we -- the executive orders that have come out of Washington, do impact how we manage co-mingled vehicles in the United States, with Chinese equities in them. And like other money managers, we've been responsive to adjusting our portfolios accordingly. It doesn't, as I understand, impact us how we manage those portfolios outside the United States. And so for example, in our Chinese portfolio -- Mainland portfolios we manage for onshore clients or A shares, we can -- in fact, it hasn't really impacted us in the way that we've managed the portfolios.

**Operator**

There are no further questions at this time. Mr. Griffin, I'll turn the call back to you.

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

Thank you, Angie. Thanks, everyone, for participating in our conference call this morning. Feel free to contact Investor Relations with any further questions, and have a great day. Goodbye.

**Operator**

This concludes today's conference call. You may now disconnect.



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