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EDITED TRANSCRIPT

AB.N - Q4 2021 AllianceBernstein Holding LP Earnings Call

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PRESENTATION

Operator

Thank you for standing by, and welcome to the AllianceBernstein Fourth Quarter 2021 Earnings Review. (Operator Instructions) As a reminder, this conference is being recorded and will be available for replay for 2 weeks. I would now like to turn the conference over to the host for this call, Head of Investor Relations for AB, Mr. Mark Griffin. Please go ahead.

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

Thank you, Natalia. Good morning, everyone, and welcome to our fourth 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, our President and CEO; and Ali Dibadj, CFO and Head of Strategy. Kate Burke, our 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 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, and thank you for joining us today. We are pleased to report 2021 results that showed a substantial progress. We accelerated our full year organic revenue growth to 5%, including a 1% fee rate increase, marking our third year in a row of active organic growth and fourth out of the last 5. Active equities, including ESG, municipals and alternatives multi-asset each grew organically at double-digit rates this year. Investment performance strengthened with 89% of fixed income and 73% of active equity AUM outperforming in 2021.

Our institutional pipeline's annualized fee base exceeded $65 million, and we launched a diverse set of new client-focused offerings at the same time, strengthening our strategic partnership with Equitable Holdings. For the year, our adjusted operating margin expanded 350 basis points to 33.6%. We delivered 34% growth in both earnings and distributions to unitholders.

Let's get into the specifics, starting with a firm-wide overview on Slide 4. Fourth quarter gross sales accelerated to $39.4 billion, up 8% or 26% from a year ago and up 22% sequentially, resulting in a record full year gross sales of $150 billion, up 21% from the prior year. Fourth quarter firm-wide

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active net inflows were $6.4 billion, a 4% annualized organic growth rate and a full year active net inflows of $26.3 billion also grew 4% organically or 5%, including a 1% fee rate improvement. Year-end assets under management of $779 billion rose 14% year-over-year, and full year AUM of $731 billion increased 18% versus the prior year.

Slide 5 shows our quarterly flow trend by channel. Firm-wide, fourth quarter net inflows of $7.4 billion represented a 4% annualized organic growth. Net inflows were positive in each channel for the fourth quarter in a row and the sixth of the last -- fifth of the last 6. Retail generated its strongest gross sales ever, leading to net inflows of $6.3 billion. Active equities and continued strength in munis helped offset outflows in taxable fixed income. Institutional sales of $6.6 billion led to net inflows of $400 million, driven by active equities. In Private Wealth, gross sales increased 40% over the prior year period, with net inflows of $700 million as we continue to grow engagement in the ultra-high net worth cohort supported by our focus on pre-liquidity planning, coupled with an innovative product suite.

Slide 6 shows annual net flows trends. The firm's strongest gross sales year ever led to firm-wide net inflows of $26.1 billion. Retail reached a record $100 billion in gross sales. Active inflows of $20.8 billion were driven by 20% organic growth in active equities and 23% growth in municipals, which offset continued outflows from global high income service. Institutional sales declined year-over-year net of a onetime benefit from the Venerable sale. We posted net inflows for the year of $2.3 billion. And Private Wealth had its strongest sales year in more than 20 years with inflows of $3 billion positive in each quarter of 2021.

Investment performance is shown on Slide 7, starting with fixed income. The fourth quarter concluded a volatile year for fixed income markets with yield curves in developed markets flattening and longer-term yields mixed as Central Bank monetary policies diverged. For the year, yields rose in all major developed markets as the recovery in economic growth solidified and inflation surged. Risk assets were mixed with most credit sectors outperforming governments led by U.S. and pan-European high yield. Our fixed income performance remains strong with 89% of our fixed income assets outperforming over the 1-year period and 72% and 70% of assets outperforming over the 3- and 5-year periods, respectively.

In tax exempt, 6 of our 10 retail municipal funds top -- remained in the top decile of their Morningstar peer group across all time periods with all 10 in the top quartile across all periods. Our muni bond inflation strategy was in the top 1% across all periods, and our Tax Aware vehicles, including SMA, grew by 25% organically.

Turning to equities. Despite bouts of volatility, 2021 was another strong year for equities globally as the MSCI World Index advanced by 24.2%. U.S. large caps led the way with S&P 500 up 28.7% and developed markets outperforming emerging markets. Style returns flipped repeatedly with value stocks rallying through May and growth stocks regaining leadership until December.

In equities, our percentage of assets outperformance remained healthy with 73% of AUM outperforming for the 1-year period, 48% for the 3-year period and 75% for the 5-year period. Three-year performance dipped sequentially as our U.S. large cap growth composite trailed the Russell 1000 growth benchmark, which is highly concentrated with 5 companies comprising 38% weighted year-end. This strategy did, however, outperform relative to its Morningstar peer group for the 3-year period. Our focus remains on identifying high-quality companies with strong fundamentals and reasonable valuations, characteristics which can help reduce risk in down markets while participating in a market recovery. We're paying close attention to pricing power as well as how distortions that may have inflated or compressed earnings over the past 2 years will play out as business conditions normalize.

Now I'd like to review our client channels beginning with retail on Slide 8. Record annual sales of $100 billion were up $21 billion or 27% from the prior year high. Active equities sales grew by $23 billion with net flows up 20% organically driven by Japan, U.S. and sub-advisory and Muni sales grew by over 40%. Fourth quarter net inflows were $6.3 billion, up 9% annualized organically with full year net inflows of $20.8 billion, up 8% organically. As shown on the upper left, 2021 was our fifth straight year of active equity inflows with organic growth average rating 11% over that period. U.S. large cap growth led the way among 10 different equity products that each exceeded $250 million of net inflows. Once again, municipals grew by over 20% annualized, led by our SMA Tax Aware and Muni Bond inflation strategies, helping to offset continued taxable fixed income outflows.

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ESG Portfolios with Purpose grew to $31.5 billion, up 16% sequentially and 91% year-over-year, driven by our U.S. and Global Sustainable Thematic Strategies. In the fourth quarter, Sustainable Global Thematic won the Green Fund Award in the Financial Services Awards of Excellence published by the Hong Kong Economic Journal.

Turning to Institutional on Slide 9. Fourth quarter gross sales of $6.5 billion declined 34% from a year ago while rebounding from a slower third quarter. Full year sales were $31.7 billion, including the Venerable sale. We drove net inflows of $400 million in the fourth quarter and $2.3 billion for the year, our third consecutive year of organic growth. Inflows in Customized Retirement Solutions, or CRS, commercial real estate debt or CRED, European CRED and active equities offset outflows in taxable fixed income and passive equities. Our middle market lending business was awarded 2 institutional mandates through a consultant, successfully competing against larger, better known alternative managers.

Our institutional pipeline grew to a record $21.5 billion at quarter end, led by a $1.5 billion global core equity mandate. The annualized fee base reached $65 million, the majority of which was from alternatives. Our pipeline included a $9.7 billion low-fee CRS mandate, which funded in January 2022. While pipeline AUM will be significantly reduced for the foreseeable future, the annualized fee base excluding this mandate remains above $60 million with an active fee rate more than 3x the channel average. With respect to AXA, for whom we currently manage $20 billion in AUM, we continue to expect $5 billion of flow fee retail redemptions in the first half of 2022.

Moving to Private Wealth Management on Slide 10. Fourth quarter and full year gross sales grew by 40% and 27%, respectively, versus the year ago period, driven by strong adviser productivity. Net inflows were $700 million in the fourth quarter, positive in each quarter of 2021 and 5 of the last 6 quarters. For the year, we grew net inflows by $3 billion or 3% organically. We continue to see our mix shift towards our ultra-high net worth $20 million and over clients, influenced by our pre-liquidity event planning efforts from which gross sales more than doubled in 2021. In 2021, we launched 9 innovative product offerings, including Real Estate Equity Plus, AB LSV Partners I, which is our new secondaries offering, Global Disruptors Fund and Sustainable Intermediate Duration to name a few. In the fourth quarter, we closed on our commercial U.S. real estate debt -- private debt fund with over $200 million in capital commitments. And for the full year, commitments to private alternative products more than doubled versus the prior year. Our proprietary separately managed equity Tax-Loss Harvesting product grew by 32% sequentially and while muni impact in ESG portfolios continue to grow strongly.

I'll finish our business overview with the sell side on Slide 11. Fourth quarter Bernstein Research revenues decreased by 4% year-over-year and full year net revenues decreased by 2% year-over-year. We experienced a fourth quarter slowdown in Asia trading volumes, reflecting caution on the part of investors measuring the spillover effect of the Chinese property market, among other events. Full year trading volumes reflected less volatility in 2021 as compared to 2020, when the COVID sell-off and ensuing recovery lifted volumes. For the full year, Asia trading commissions increased in the high teens while research checks posted mid-single-digit growth, reflecting our premium research franchise. In November, we held our second virtual Operational Decisions Conference with an impressive lineup of senior executives from over 51 companies in various sectors. And we launched coverage on 3 new sectors this past quarter 2 in China, 1 in Europe.

I'll now review progress against our growth initiatives on Slide 12. Our investment performance strengthened in 2021 with 70% or more of our both fixed income and equity outperforming over the 1- and 5-year periods. We drove organic growth across each channel all 4 quarters last year and 5 of the last 6 quarters with retail positive 12 of the last 14 quarters and institutional positive 10 of the last 11. Active equities remained the standout performer. Private Wealth grew by 3% positive in each quarter of 2021 and 5 of the last 6 quarters with active client engagement and 9 diverse new product offerings. Our ESG Portfolios with Purpose now stand at $31.5 billion in AUM, up 91% year-over-year. In alternatives, we launched our climate-focused 1.5-degree long/short equity strategy and closed on our commercial real estate debt private debt fund.

Financially, we delivered on our commitments, posting incremental margins of 53% above our long-term target range of 45% to 50%. Full year adjusted operating margin of 33.6% was up 350 basis points year-over-year with adjusted earnings in unitholder distributions up 34% versus the prior year. I'll return to share thoughts on our growth strategy. But before that, I'll turn it over to Ali to review the financials. Ali?

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

Thanks, Seth. Let's start with the GAAP income statement on Slide 14. Fourth quarter GAAP net revenues of $1.3 billion increased 19% from the prior year period, operating income of $393 million increased 30% and operating margin of 30.8% increased by 240 basis points. GAAP EPU of

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$1.27 in the quarter increased by 31% year-over-year. For the full year, GAAP net revenues of $4.4 billion increased 20%, operating income of $1.2 billion rose 34% and operating margin of 27.3% increased 270 basis points.

Full year GAAP EPU of $3.88 increased by 34% 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 are in our presentation appendix, press release and 10-K.

Our adjusted financial highlights are shown on Slide 15 which I'll touch on as we talk through the P&L shown on Slide 16. On Slide 16, beginning with revenues. Net revenues increased 16% for the fourth quarter and 18% for the full year versus the same prior year periods. Base fees increased 19% for the fourth quarter and 20% for the full year as higher average AUM across all 3 distribution channels was driven by both markets and organic growth in each channel. Fee rates for both periods increased with the fourth quarter fee rate of 39.4 basis points, up 0.7 basis points or 2% year-over-year and the full year fee rate of 38.9 basis points up 0.5 basis points or 1%. We continue to believe that although our fee rate may be volatile from time to time, given large mandates that could skew averages, such as the $10 billion low-fee CRS addition in January, the long-term trend should be grinding higher.

Fourth quarter performance fees of $134 million increased by $25 million over the prior year period, driven by our financial services opportunities fund and real estate offerings, offset by lower fees as compared with prior year at Arya Partners. Full year performance fees of $222 million were up $92 million compared to $130 million for the prior year, reflecting a solid year for alpha generation and more diversified across public and private alternative strategies. Middle market lending of $55 million, financial services of $41 million and U.S. select equity long/short $32 million were the largest generators of performance fees.

2021 was quite an anomalous year for performance fees, both in terms of source, magnitude and benefit to the bottom line. Although difficult to predict, a reasonable run rate for 2022 would likely be somewhere between 2019 and 2020 levels. Fourth quarter revenues for Bernstein Research Services decreased 4% from the prior year period, driven by lower trading volumes in Asia, reflecting a shift in Asian investor sentiment around risk. Full year revenues declined by 2%, reflecting higher COVID-driven market volatility in the prior year. We incurred investment losses of $1 million in the fourth quarter similar to the prior year period and for the full year, a gain of $1 million as compared to a loss in the prior year of $7 million.

Moving to adjusted expenses. All in, our total fourth quarter operating expense of $630 million increased 9% year-over-year, while full year operating expense of $2.4 billion increased 12% from the prior year. Total compensation and benefits expense increased 4% in the fourth quarter versus the prior year period, primarily due to higher base compensation and commission offset by lower incentive compensation. In the fourth quarter, some compensation expense moved to G&A reflecting investment as well as increased usage of outside consultants, which can accelerate strategic initiatives and improves our flexibility as these represent variable as opposed to fixed comp expenses.

Compensation was 41.7% of adjusted net revenues for the fourth quarter versus 46.7% in the prior year period. Full year 2021 revenues crystallized at a higher level than we had anticipated earlier in the year, allowing us to leverage down the fourth quarter compensation ratio relative to prior periods. For the full year, compensation and benefits increased by 15% driven primarily by higher incentive compensation, reflecting both higher markets and increased performance fees and base compensation. Full year base compensation increased by 9%. Average headcount rose by 4% as compared with the prior year average. The full year 2021 compensation ratio was 46.5%, 140 basis points below the prior year. While our 2021 compensation ratio benefited from favorable market conditions, 2022 has clearly brought more volatile markets, given current market conditions, as we plan to accrue compensation at a 48.0% ratio in the first quarter of 2022 and may adjust throughout the year if market conditions change.

Should markets pull back further, this ratio could go up as we plan to pay competitively given our people are our most important asset. As a reminder, the compensation ratio is also sensitive to variability in the year-end mix of performance fee eligible funds and impact from the possibly increasing post-COVID fringe benefit. Promotion and servicing costs rose 24% in the fourth quarter and were up 7% for the full year, reflecting lower T&E and meeting costs last year owing to the COVID-19 pandemic. Going forward, while we still strive to realize some portion of ongoing efficiencies, we would expect promotion and servicing spend levels to increase meaningfully as the pandemic stages subside. G&A expenses increased 20% in the fourth quarter versus the prior year period or 15% excluding Nashville and related relocation expenses. This increase is split

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roughly evenly into 3 areas: one, growth-related technology and efficiency projects as well as new product launch support; two, inflationary impact from areas such as market data and professional services; and three, core G&A necessary to support the organic growth of our business.

For the full year, G&A rose 11% or 9% excluding Nashville and related relocation expenses. This 9% growth was also split relatively evenly between the same 3 categories: growth and efficiency projects as we opportunistically invested in the future at an accelerated pace to take advantage of our strong performance in the year, inflation impact and core G&A, including FX adding 1%.

Looking forward, we expect the rate of G&A growth to moderate from 2021's rate, though remaining above our historical average to somewhere in the mid- to high single digits. We will continue to invest in return generating growth and efficiency projects including the use of outsourced consultants where appropriate, and we expect inflation to remain persistent. Core G&A growth is necessary to support our organic growth. Intangible expenses were flat in the fourth quarter and declined by $16 million for the full year as the quarterly amortization charge associated with our acquisition of Bernstein 20 years ago ended in the third quarter of 2020. Fourth quarter operating income of $394 million increased by 31% and full year 2021 operating income of $1.2 billion increased by 32% versus the prior year period as revenue growth outpaced expense increases. Fourth quarter operating margin of 38.5% was up 430 basis points year-on-year, reflecting the operating leverage of our business. The incremental fourth quarter margin was 64% as compared to the prior year period. Our full year 2021 operating margin of 33.6% increased 350 basis points from 2020. For the full year, we delivered incremental margin of 53%, above the high end of our long-term targeted 45% to 50% range. 2021's margins reflected strong markets, a robust level of beneficial mix of performance fees and continued low T&E expenses due to COVID.

Absent improvement in markets from today's levels, we would expect 2022 margins to be impacted, reflecting continued higher inflation and our investments to both deliver our services to our clients more efficiently and grow for our clients through diversification and expansion. As outlined in the appendix of our presentation, fourth quarter and full year adjusted earnings exclude certain items which are not part of our core business operations. In the fourth quarter, adjusted operating earnings were $2 million or $0.02 per unit above GAAP operating earnings due to the net impact of acquisition-related expenses and contingent payments. For the full year, adjusted operating income was $2 million below GAAP due to the net impact of acquisition-related credits offset by real estate and contingent payments, but EPU was $0.01 higher when excluding the impact of netting minority interest in operating income. The full year 2021 effective tax rate for AllianceBernstein LP was 5.2%, about as expected. Going forward, we expect an effective tax rate for 2022 of approximately 5.0% to 5.5%.

I'll finish with an update on our corporate relocation to Nashville. We are enjoying use of the new Fifth and Commerce location, which we moved into last July. At year-end, we had 974 Nashville-based employees, up 23% from a year ago and more than 3/4 of the way to our target of 1,250 colleagues. For the fourth quarter, estimated expense savings related to our Nashville corporate headquarters relocation totaled $12 million compared to transition costs of $6 million, resulting in a net $6 million increase in operating income or a net $0.02 accretion to EPU. Of the net $6 million, approximately $10 million is compensation offset by $4 million of increased occupancy costs. For the full year 2021, expense savings of $43 million were greater than transition costs of $27 million, resulting in a $16 million contribution to operating income for a net increase of $0.06 per unit. Of the net $16 million, approximately $33 million in compensation-related savings offset by $17 million of increased occupancy costs. For 2022, we expect the Nashville relocation to remain accretive. We continue to estimate ongoing annual expense savings in 2025, once the transition period is over to be in the range of $75 million to $80 million per year.

With that, I'll turn it back to Seth for some closing remarks before we take your questions.

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

Thank you, Ali. Turning to Slide 18. Last year, under Ali's leadership, we undertook a fresh look at our strategy with the resulting 5-part strategy statement guiding our path forward; deliver, diversify and expand responsibly with Equitable. In 2021, we made great progress in this regard. We delivered improved investment performance and accelerated our organic growth. Included in 2021's banner year, our active equity platform has grown organically by 5% annually over the last 5 years, well above the industry. We diversified our global product offerings with innovative offerings across all channels. For example, in alternatives, we grew our commercial real estate debt and middle market lending offerings and onboarded a climate-focused long/short team, 1.5 degrees. We successfully expanded our global distribution footprint, driving over 40% sales growth in U.S. retail SMA assets, accelerating our adviser hiring in private wealth, and we're progressing in China having received formal acceptance of our application in the fourth quarter, a key milestone in the FMC license application process.

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Our responsible investing platform continued to grow strongly as we added 2 new strategies that align with the UN sustainable development goals, sustainable income and sustainable U.S. thematic credit as well as climate solutions and sustainable emerging markets debt to name a few. And we announced earlier in 2021 Equitable's commitment to allocate $10 billion of permanent capital to our private alternatives and private placement platform. We're pleased with progress, including recent commitments from Equitable for our CRED Core Plus, both fixed and floating and our construction to permanent strategies. In response to client demand, we continue to assess inorganic growth opportunities to fill out our product gaps with focus on the private credit side, including asset-backed infrastructure and renewables to name a few. In summary, we had a strong 2021, entering a more volatile 2022, our teams remain focused on pursuing insight that unlocks opportunity for our clients, unitholders and other stakeholders. With that, we welcome your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from the line of Bill Katz with Citigroup.

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

So maybe, Seth, one for you where you so left off with Equitable. Maybe the bigger picture question is, where are you with Equitable in terms of some of that advancement of the $10 billion? It sound like there's a few things going on. And then is there an opportunity to broaden that suite out beyond Equitable to other players organically?

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

Thank you, Bill. Let me take them in turn. We are already utilizing a portion of that $10 billion on our existing strategies, whether it's middle market lending, CLO and our commercial real estate debt business. They were the initial investor in our European commercial real estate debt business, which, as you know, we launched last year. Look, it will take time to deploy that, but commitments have been made. It is our absolute expectation that we will be able to commercialize those products and new services and teams we bring on beyond just equitable or our existing base of insurance and clients. The world continues to have a very strong demand for private debt generally, that has been the focus to date of our efforts. And so I feel pretty good about it but let me leave it there.

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

Okay. Maybe one more big picture for you. Just as you think about the opportunity in retail democratization theme, which large numbers no matter who you speak with. Can you talk about little bit what the incremental plans are within your existing book of the private client business? And then how you might tap into sort of the market outside of your own footprint?

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

Sorry, from a private wealth basis, Bill, or?

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

Right, right. So I guess, a, what are you doing with your existing book? And then b, how do you sort of go after the mass affluent in non-AB distribution channels?

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

I'm going to actually answer the second part of that first, and I'm going to hand it over to Kate Burke to answer with respect to our private wealth business. She's on the phone and runs that business. But more broadly, that's exactly who we've been attacking through our distribution partners, both in the United States and globally, whether it's the very strong receptivity to our large-cap growth service in Japan or increasing interest in equities in greater Asia, our sustainable suite of products, which has really been driving strong interest is principally retail in terms of those flows that we were talking about earlier in our presentation. And I really think we look to our retail growth strategies, both in the U.S., a bit in Europe, but more in particular in Asia, to really drive that growth further in coming years. But Kate, why don't you chip in with respect to private wealth management.

Catherine Cooney Burke - *AllianceBernstein L.P. - COO & Head of Private Wealth*

Sure. So the focus with Bernstein Private Wealth continues to be moving upmarket into the ultra-high net worth cohort, and we've seen a lot of success in that area growing the net AUM or the net flows higher than our average flows, but we are recognizing that there is a real opportunity also in this emerging wealth cohort that you talk about. But for us, in a very specific area, and you see that in the success of the growth of our pre-liquidity and transactional events where we are partnering with early venture entrepreneurs and new -- and private business owners looking at how we can provide them with agnostic wealth advice separate from the transaction about how they want to be positioning their portfolios longer term. And we're seeing that pre-transaction planning really be a nice driver of that emerging wealth cohort and we continue to invest in making sure our wealth advice meets those client needs and are looking to continue to kind of expand that offering. But in a very curated and specific audience of that emerging wealth versus going after it broadly.

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

Bill, can I just clarify something? Were you talking about alts in particular? Or were you talking more broadly about into the affluent marketplace?

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

Well, I was speaking directly to the alts. That seems to be the incremental theme at the margin. So I was just hoping to get your thoughts here.

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

I apologize. I misunderstood.

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

I apologize if I was not clear.

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

Actually, it's been an important source of growth. Kate's business has been a large driver of that, and she can add more color there. But our Select platform is already seeing interest and was a strong contributor in 2021. And we also intend to sort of move in to expand into retail our private credit capabilities through partnerships with others. So watch the space. Kate, anything specific?

Catherine Cooney Burke - *AllianceBernstein L.P. - COO & Head of Private Wealth*

No, I would just add that alternatives continue to be an attractive area for our clientele.

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Operator

Your next question is from the line of Dan Fannon with Jefferies & Company.

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

I guess to start, just in terms of performance fees, I appreciate the kind of forward-looking commentary. But as we think about the fourth quarter and the magnitude, was there something different about the makeup of these performance fees as the comp ratio obviously came in a lot lower. And so just thinking about payout or how we should think about the compensation associated with performance fees going forward as well?

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

Thanks for the question. So yes, I would say that the performance fees in the year and in the quarter were a little bit anomalous, both in terms of the size for the year, the $222 million number was larger than we would expect. And to your point, Dan, on the mix of where they came from. I mentioned a couple of the funds that you probably haven't heard a lot of over the past several years, Financial Services Opportunity Fund our real estate platform, those come in quite strong -- more strongly than we have thought in any 1 year. It's hard to predict, as you can imagine, what happens in 1 year versus another year. We do expect these funds to perform, but sometimes things come in a little bit earlier or less spread out than we would have think. That does impact certainly the impact to the bottom line as well, depending on the mix. The way we would think about performance fees, just to give you a guide going forward in a more normalized manner is somewhere between 2019 and 2020 levels. That's kind of a more normalized level to think about the performance fees going forward.

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

Understood. And then just as a follow-up here, you talked about promotion and servicing increasing significantly. So maybe put some numbers around that, if you could, or how to kind of frame that in terms of historical or other periods? And then also the comp ratio discussion for the first quarter that, I think you said up to date for kind of current AUM levels. So I just want to see kind of what the starting point of that comp ratio in terms of year-to-date market performances within that?

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

Sure. So on the promotion servicing elements, remember the 2 biggest buckets of that, that have vacillated given COVID are T&E and for meetings. What we said in 2020 versus 2019 holds through actually for 2021, which is we effectively say across both of those roughly $50 million worth of T&E and for meetings across those 2 relative to 2019. So essentially flat 2021 versus 2020 is a way to think about it. If you want a sense of where we are on that, we're probably around 1/4 of the spend of 2019 right now. We expect that to go up significantly. We hope for all of our sakes that, that goes up significantly because we also get to be in front of our clients.

And obviously, the pace of that is your guess as best as our guess. I would say that we do expect savings over the long term relative to our 2019 numbers. We've talked on these calls before to something like 75%, 80% hopefully, from a run rate basis, but we would expect those costs to go up in the short term, certainly as people get back on the roads and there's some pent-up demand. So hopefully, that gives you some context around that.

On the comp ratio, as we said, 48% is a comp ratio. We're starting to accrue in Q1. Obviously, if the markets go down since then or if there's a big change in the market, that may change. We'll have to see how things play out. But we've been historically very balanced in thinking about investing in the short term of our business as well as importantly, for the long term of our business. And we have balanced that through all of our expenses, obviously, including the comp ratio. We understand it's competitive market and our people are our assets, and we're going to make sure we're competitive in that marketplace as well.

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Operator

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

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

I was just curious, I mean, the -- and looking at the U.S. retail SMA, I mean you highlighted on Page 18, the 40% increase in sales. I'm just kind of curious, it's possible to what would you attribute that obviously, performance. But were there some specific new strategies that you introduced whether product-wise or on distribution, on the sales side? Just trying to get a sense of kind of what drove that dramatic increase and how maybe broad-based it was?

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

It was -- Rob, it's Seth. It was -- look, tax-exempt SMAs have really been an important driver for us. We were an early mover there. And we've offered a considerable degree of flexibility in how we structure them and [different services] for our clients. And it's resonated with distributors as well as in our private wealth business more generally, where it's been a cornerstone element of our offering. But it's not just in the equities business -- I'm sorry, the fixed income business specifically. You've also seeing, I think, along with the industry more broadly, increasing demand from more affluent investors for SMAs over ETFs or mutual funds for that matter. And so we think that demand will continue to grow as people become more tax-sensitive and want to understand what's going on in the underlying...

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

Great. And I know we don't want to focus too much on 1 month or 1 or 2 months. But January, obviously, was -- on the flow front, in addition to the CRS, it looks like it was a strong start to the year. I mean, could you put any kind of flesh to that a bit. I mean, want to say kind of hear what flows were in January outside of CRS or give us some sense of that?

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

We don't disclose specific flows, but what I will tell you, we've seen the continuation of the trends. We've elucidated in the past, pretty strong continuing interest in equities and continuing redemption taxable fixed income, principally from Asia. So the momentum is okay. But look, there are headwinds in the marketplace, we recognize. And then as Ali said earlier, I think we're anticipating more volatile markets generally with more rapid changes in investor interest.

Operator

(Operator Instructions) Your next question is from the line of John Dunn with Evercore ISI.

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

Maybe just on -- you mentioned Asia. Any initial outlook for maybe getting a shift back in demand for retail fixed income in Asia sometime in '22? And maybe how has this pattern kind of played out in other -- in prior cycles?

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

Thanks for the question. So look, generally, the strength of our business, historically, although it's beginning to change today was really very much an income-oriented fixed income. That continues to be an important part of that business. And investors in Asia tend to be much more market sensitive than performance sensitive, and that's been our experience to date. Our relative performance is reasonably good. I think what we're seeing is what we frankly see every time the Fed is engaged and goes into tightening mode, a general lack of interest in fixed income assets generally and reallocations elsewhere and so we face that. What I would tell you is every time in the past, it's happened and it's been from -- so far from relative perspective, more modest today and in 2021 than we saw in prior periods of disruption. We see -- we typically come back with pretty strong results and the enthusiasm for the services pick up. Look, as high yield, yields sort of pop up over 5%, we think that is an important point where investors start to take more notice and begin to weigh carefully back into the market. But I think more broadly, Asian investors are tending to be more interested in equities and multi-asset than they were in the past, and we continue to see interest in both of those as well.

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

Got it. And then maybe on the institutional side, it's a different environment on a bunch of fronts this year. Are the questions the institutional consultants are asking, are they changing? Are they looking at different stuff? How maybe you sense how those conversations may have shifted?

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

Yes, I would say there's certainly been, over the last several years, much more focus on responsibility, ESG, how it's integrated into our processes. We have a good story to tell. But in terms of interest in markets, look, I think it continues to be driven by interest in alternatives. But in traditional markets, much less activity in fixed income, although we've seen some participating. And in equities, certainly, we've seen more interest and have benefited from some businesses, people begin to rotate into value. Beyond that, I guess, less clear to me that there's been changes.

Operator

We do have a question from the line of Bill Katz with Citi Group.

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

Okay. So Seth, you mentioned that there might be some inorganic opportunities to build out the platform. A, I wonder if you could dive into that a little bit more. And then b, there's been some pretty big multiples being paid out there. How are you thinking about the sort of the gap between bid-ask in terms of trying to affect the transaction?

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

I'm going to take them in turn, and I may ask Ali to jump in as well. Look, we -- as I've told you and others all along, we continue to look at teams. Our philosophy has been, I think, fairly clear, which is our interest is in teams where we see an edge, where we see a culture, where we see a track record of excellence where we think we can actually grow them faster than they can grow themselves and get them to scale. People know we're the right kind of home for active managers. We understand how to manage teams giving them their space, but also realizing the benefits of integrating and unifying those services that they need, whether it's distribution, technology operations and core functions.

And so we've had a very good track record to date of finding onboarding and getting teams to scale. It doesn't always work, but for the most part, it's done well. I'd say the activity levels remain fairly high at what we look at, Bill. So there's nothing to report there. But let me make a couple of comments with respect to the valuation gap between traditional and alternative matters because we certainly recognize it. And our approach has been frankly, to really focus on smaller teams or teams that don't have significant assets under management and to help them get to scale. Because if we're going to have to pay a relatively higher multiple, we'd much rather get the benefit for our unitholders by benefiting from the scaling of

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that business. So I think we would shy away from buying a larger firm for that reason, but we continue to be focused on that area. Ali, would you like to jump in?

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

Sure. Just to add a little bit to the question, Bill. One is we're certainly in the flow of everything that you read and that you see. So we've deliberately stayed away from some of the acquisitions that you might have seen. And the context of why we stay away from them is really exactly as Seth said, because we're not looking for things that are at scale. We're looking for things that we can grow and that we have competency and as Seth described, of the team to grow. That is our #1 thing. We need to believe in the team to grow. And look, there's a lot of interesting stuff out there that we are again in the flow. From -- if it's not scale, and what is it to grow bucket. We're very focused on alternatives, private alternatives, in particular. We've built a very sizable business of $23 billion in overall alternatives for us so far.

You've heard us mention that on past earnings calls. We believe there's a lot more growth in that to deliver for our clients who are asking for these types of products, and we see some interesting opportunities to partner with firms and grow those firms. And we can grow them in particular, because we have distribution channel that is very well owned. We mentioned retail just a moment ago, which is just opening up to alts for us, but we have a very well owned private wealth channel that is looking for alternatives, institutional, of course. We're hearing that more and more, as Seth mentioned that a moment ago. And let's not forget our partner with Equitable, who not just with the $10 billion number, but just more broadly, is a great partner to build private credit. So again, it's busy out there. We have been fortunate to bring on some great teams, and we look forward to bringing on some more teams that we can grow in the future.

Operator

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

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

Thank you, Natalia, and thank you, everyone, for participating in today's conference call. Feel free to reach out to Investor Relations with any additional questions, and have a great day.

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