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AllianceBernstein Holding

Third Quarter 2024 Earnings

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PRESENTATION:

Operator^ Ladies and gentlemen, thank you for standing by. And welcome to the AllianceBernstein Third Quarter 2024 Earnings Review. (Operator Instructions)

As a reminder, this conference is being recorded and will be available for replay on our website shortly after the conclusion of this call.

I would now like to turn the conference over to the host for this call Vice President of Investor Relations for AB, Mr. Ioanis Jorgali.

Please go ahead.

Ioanis Jorgali^   Good morning, everyone and welcome to our Q3 2024 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 are Seth Bernstein, President and CEO; and Jackie Marks, CFO; Onur Erzan, Head of Global Client Group and Private Wealth; and Matt Bass, Head of Private Alternatives 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 would like to point out the safe harbor language on Slide 2 of our presentation. You can also find our safe harbor language in the MD&A of our 10-Q, which we filed this morning.

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 our 10-Q. Under Regulation FD, management may only address questions of material nature from the investment community in a public forum.

So please ask all such questions during this call.

Now I'll turn it over to Seth.

Seth Bernstein^   Good morning and thank you for joining us today.

Over the last several years, AllianceBernstein has been on a journey to redefine itself and emerge as a leader in asset and wealth management, and I'm pleased with the progress we're making.

We've delivered positive net flows each quarter this year and surpassed $800 billion in assets under management as of quarter end.

I want to take this opportunity to express my gratitude to our colleagues, clients and unitholders who have supported us throughout this journey.

Today, AB is a stronger company with a distinctive stronger company with a distinctive value proposition, which is highlighted on Slide 3.

We have a differentiated distribution platform, which includes our proprietary private wealth business. This gives us an edge in growing markets like Asia, U.S. high net worth, and global insurance.

We can also deliver our clients' diversified investment capabilities across traditional and alternative asset classes. This includes our growing private markets platform, which is supported by our strategic relationship with Equitable.

In addition, as Jackie will discuss in detail later, we have a clear path for margin improvement, which will reflect on our results as we move into 2025, assuming no market deterioration.

Finally, AB has a tax-efficient partnership structure that prioritizes capital returns to shareholders and ensures a disciplined approach to growth investments.

Moving to Slide 4, I'll review our third quarter business highlights.

First, we delivered our third consecutive quarter of organic growth. Active fixed income inflows totaled $6 billion led by retail where taxable and tax exempt each grew 17% and 27% organically on an annualized rate.

We've been among the first asset managers to benefit from reallocation since the fixed income, having registered nearly $20 billion in active fixed income inflows year-to-date, more than 50% higher than 2023's full-year flows.

American Income continues to headline taxable demand with over $2 billion of net inflows during the third quarter.

Our tax-exempt franchise is also gaining market share and had over $3 billion in net inflows, led by retail muni SMAs and demand from Bernstein Private Wealth.

We're also seeing preliminary signs of a turnaround in U.S. retail demand for taxable, with over $0.5 billion in inflows year-to-date into our ETF and mutual fund suite. Active equity outflows of $4.5 billion remain elevated in the third quarter. Concentrated institutional redemptions outweighed pockets of strength in retail active equities where we observed continued inflows into U.S. large cap growth and renewed interest for our value strategies.

Second, we continue to expand our private markets platform through deepening existing partnerships and forging new ones in the growing retail channel.

Our private markets AUM reached $68 billion in the third quarter, up 11% year-over-year, driven by strong net fundings into our alternative strategies.

At the institutional level, we deployed over $1 billion across CLOs, real estate, mortgages, and renewable energy strategies.

Last month, we announced the launch of the AB CarVal Credit Opportunities Fund, which is an unlisted, closed end interval fund that brings CarVal's expertise in specialty finance, aircraft leasing and energy transition to the broader retail audience.

Our sales teams are engaged across key channels, leveraging our established footprint in the large U.S. retail market. The interval fund is already live with one-third party platform and on track for others.

As a reminder, Bernstein Wealth Management has been a pioneer in bringing alternative assets to U.S. high net worth segment, and we're able to leverage this distribution expertise as we forge our third party retail market strategy. A third highlight for the quarter is that our fee rate has stabilized, so we saw base management fees grow in line with AUM.

Finally, we're making steady progress on our margin accretion initiatives including the completion of our New York City office relocation in September.

Our adjusted operating margin in the quarter of 31.3% is up 330 basis points year-over-year and we have clear line of sight to further improvement in 2025, provided there is no market deterioration.

Slide 5 reflects a summary page of our key financials metrics. Jackie will follow-up with more commentary on the fee rate, performance fees and margin.

Turning to Slide 6, I'll review our investment performance starting with fixed income.

September kickstarted the Fed's monetary easing cycle in the U.S., following in the footsteps of other major central banks. Rates moved down and the yield curve steepened, pushing bond prices higher. The Bloomberg U.S. Aggregate Index returned 5% in the Q3 with both duration and credit performing well in an environment of moderating growth and inflation.

Our near-term performance has benefited from both active duration management and credit positioning as we've successfully navigated a shift in the rate regime and continued tight spreads. 92% of our assets under management are outperforming in the past year, while 65% and 59% of our AUM outperformed over the three, five year periods. Despite elevated volatility, active management of duration and credit exposure has yielded strong returns for our clients over the past year.

Our marquee income strategies, American Income and Global High Yield returned more than 13%, 15%, respectively, over the one year period. Relative performance of these strategies was also strong in the near-term with American Income outperforming both its benchmark and its Morningstar category average, while Global High Yield outperformed its Morningstar category average over the one year period.

Our outlook remains constructive.

Importantly, we observed the normalization in asset class return correlations.

As bonds regain their diversification value, credit fundamentals remain healthy and monetary policy becomes more certain, we expect investors to accelerate their reallocation into fixed income by tapping on the large money market holdings.

While the timing of the pace of the rebalancing is debatable, the case for fixed income is self-evident and the capital can move swiftly as we observe with cash sorting in 2023.

Turning to equities.

In the U.S., the equal weighted S&P 500 returned 10%, outperforming the market weighted S&P by 400 basis points as large cap value outperformed large cap growth.

Small caps also had solid quarter with the Russell 2000 returning 9%. Among non U.S. equities, emerging markets delivered strong gains in the third quarter, led by China, which posted double-digit returns following monetary and fiscal stimulus measures announced in September. Performance for our equity of equity strategies remains mixed, with 55% of our AUM outperforming over the one year, while 47 outperformed over the three year and 67% over the five year period.

U.S. large cap growth performance has lagged in recent quarters.

However, year-to-date absolute returns remain strong and the strategy continues to outperform over the long-term, beating the Morningstar peer group average over the three, five, ten year periods.

We have more than 20 strategies or funds across value, SMID Cap, China, emerging markets and international healthcare that outperform their respective benchmarks or composites over the one, three, five-year periods.

Our U.S. value services across the cap spectrum are performing well. Active management in U.S. large cap value is working and investors who are underexposed or passive in large cap U.S. value are missing out on the experience.

Over the last quarter, we had nearly $400 million in inflows into U.S. Value Services and we are ramping up efforts to increase client awareness of our differentiated capabilities.

In addition, we're seeing increased client RFP activity for our new European growth service.

Now turning to Slide 7. Retail posted its fifth straight quarter of positive net inflows and had its highest quarterly inflows since 2021, with a 7% organic growth rate.

Our advantageous competitive position in APAC, and our growing presence in the U.S., EMEA, and Latin America helped us deliver positive net flows across all regions. All active asset classes were inflowing in the third quarter and total inflows of $5.4 billion led by robust gains in active

fixed income and modest inflows into active equities. Taxable fixed income grew at 17% annual rate or 14% excluding money market flows.

Offshore retail continues to drive taxable gains, reflecting inflows into American income and global high yield. Retail muni SMAs continued to gain market share, growing at a 27% annualized rate.

Finally, active equity also grew organically supported by continuing inflows into U.S. large chip growth, U.S. select and value services. Base management fees grew 19% year-over-year and 8% sequentially, reflective of market growth in addition to organic flows and fee-based growth.

Organic based fee growth was 3% over the last 12 months and 8% as of the third quarter of 2024.

Moving to Slide 8.

Institutions continued to shed assets in the third quarter with outflows totaling $4.4 billion at a 5% annualized loss rate. Active equity strategies continue to drive redemptions, weighing on channel flows and offsetting demand for fixed income and alts. Excluding money market outflows, taxable fixed income grew at a 3% annualized organic rate, primarily driven by corporate investment grade.

We had $1.9 billion in pipeline fundings during the third quarter, with the pipeline now standing at $10.1 billion as of the end of the quarter. Note that institutional fundings accelerated in the third quarter with $2.3 billion in pass through mandates that were not captured on our pipeline.

The pipeline fee rate declined as we continued to fund higher fee alternative mandates. Lower fee mandates such as the $500 million systematic fixed income win in the third quarter also drove down the pipeline fee rate.

We continue to make inroads, marketing the systematic product to institutional client channel where we're looking to gain market share. RFP activity and proposals are picking up the pace with a notable uptick in requests for fixed income, value and emerging markets equities. This is a good leading indicator for future pipeline additions.

However, these mandates tend to be lower feed and will impact our pipeline fee rate.

As we add Equitable's second $10 billion commitment to the pipeline, we expect these additions to partially offset some of these pressures.

While deployments in higher fee alts detract from the pipeline fee rate that benefit the channels fee rate, which is up 2% sequentially.

Turning now to Slide 9. Private wealth posted modest inflows in the third quarter as increased sales momentum versus the prior year was offset by increased redemptions. Demand dynamics

within the channel favored tax-exempt, posting a 10% annualized organic growth rate in addition to alternatives growing at a similar pace.

More than $500 million of inflows within alternatives were driven by U.S. real estate equity -- real estate debt and secondaries.

Fundraising and alternatives remain the key driver for channel activity with $700 million raised in the third quarter including our newly established CarVal Interval Fund. Within taxable, outflows were concentrated within money markets.

As we approach year end, we remain constructive on the channel outlook given strong momentum in fundraising for alternatives and risk appetite reviving. Advisor productivity and sales momentum is tracking at record levels in 2024.

Base management fees grew 13% year-over-year and 4% quarter-over-quarter. Private wealth is also a significant driver of performance fees reflective of the channel's private markets exposure and net interest margin. This is defined as dividends and interest income minus the interest expense on private wealth cash.

Now I'll pass it to Jackie to cover our financial results.

Jackie Marks^ Thank you, Seth. And good morning, everyone.

We continued to deliver strong financial results in the Q3, reflecting solid growth in management fees and focused expense discipline. Third quarter adjusted earnings per unit of $0.77 were up 19% versus the prior year, benefiting from strong markets, sustained organic growth and durable fee rate and margin expansion.

As a reminder, we distribute 100% of our adjusted earnings to unitholders.

Turning to Slide 10, we show our adjusted results, which remove the effect of certain items not considered part of our core operating business.

For a reconciliation of GAAP and adjusted financials, please refer to our presentation appendix or our 10-Q. Net revenues of $845 million were flat versus the prior year and up 12% on a like for like basis excluding Bernstein Research.

Our third base fees increased 14% versus prior year in line with the growth in our firm wide average AUM. Q3 performance fees of $26 million declined by $2 million from the prior year period.

For full year 2024, we now expect performance fees of $145 million to $155 million and I'll cover our outlook in more detail shortly. Dividend and interest revenue along with the broker

dealer related interest expense declined, which reflects lower cash and margin balances within private wealth.

Moving to our expenses.

Our total Q3 adjusted operating expenses of $581 million declined by 5% year-over-year, reflecting the deconsolidation of Bernstein Research and a lower compensation ratio. Q3 total compensation and benefits expense was $414 million down 3% versus the prior year.

We had a compensation ratio of 48% of adjusted net revenues in the quarter below the 49.5% ratio in the prior year period.

We expect our Q4 2024 compensation to revenue ratio will remain at 48% assuming Q4 revenues come in as expected.

Promotion and servicing costs decreased by 32% from the prior year period, reflecting the significant reduction of trade execution and clearance expenses from Bernstein Research.

We now expect the reduction in full year promotion and servicing expenses to be at the higher end of our previously communicated guide of down 18% to 20%.

G&A expenses declined by 1% in the Q3 versus the prior year period, in line with our guidance. Recall that this quarter's G&A included approximately $12 million in accelerated lease expense, which was embedded in our prior guidance.

We continue to expect full year 2024 G&A expenses to decline in the mid- to high-single-digit range on a year-over-year basis.

Q3 interest on borrowings decreased by approximately $5 million from the prior year period, reflecting seasonally lower debt balances in addition to previously communicated debt repayments. The third quarter effective tax rate for ABLP was approximately 4%, which was lower than expected, primarily due to the favorable tax impact of the reduction in the carve out impact of the reduction in the CarVal contingent consideration liability.

Our guidance for ABLP's effective tax rate in 2024 is now a range of 5% to 6%, down from the prior range of 6% to 7%.

Now moving on to Slide 11.

I want to focus on the trajectory of our firm-wide base fee rate.

As of 3Q ‘24, the firm-wide fee rate stood at 39.9 basis points, rebounding from its 2024 lows on supportive asset class and channel mix shifts. There are many factors that can impact the fee rate and we will not cover them all, but some of the key trends in the third quarter include offshore

retail inflows and capital appreciation in our flagship income strategies such as American Income and Global High Yield enhanced the fee rate contribution.

Equity markets were also supportive, particularly given our retail exposure in active equities. Active equity outflows were primarily concentrated at the institutional level, while we grew organically in higher-fee retail services.

We also saw accelerating funding activity within alternatives, which had a positive impact on the institutional channel fee rate.

Growing our private markets offering is a strategic priority for us supported by our partnership with Equitable.

While we expect our fee rate to remain mix dependent in the near-term, we have maintained a fee-conscious strategy over the last few years, evolving our product capabilities and regional sales mix to mitigate some of the fee erosion witnessed across our industry.

Slide 12 reflects a breakdown of our performance fees by private versus public strategies.

Our total performance fees more than doubled in 2023 versus the prior year, and they are on track to grow at high-teens rates in 2024, assuming the midpoint of our updated guidance of $145 million to $155 million. Private alternative strategies have been the primary drivers of our performance fees over the past few years. These strategies include commercial real estate debt, CarVal and middle market lending also known as AB Private Credit Investors or AB-PCI.

AB-PCI is the largest contributor to the performance fee bucket.

While some strategies are more volatile than other and we expect lower interest rates to dampen the trajectory of future growth, we already have line of sight to $70 million to $75 million of recurring hurdle based performance fees for 2025.

Please note that our estimate assumes a lower interest rate environment. Performance related fees for private alternative strategies are more highly valued by the market over performance fees from traditional public market services and we believe this incremental disclosure should clarify for investors the characteristics of AB fee mix.

Specifically, AB-PCI performance fees are largely driven by its predictable income from contractual interest payments. No sale or repayment of the underlying loans are required to generate these fees. Hopefully, this additional disclosure will lead to greater appreciation of the consistent fees we generate from our growing private markets business.

Turning to Slide 13. This quarter marked another milestone on our path towards sustainably higher margins.

As of the third quarter, our adjusted operating margin stood at 31.3%, up 310 basis points year-to-date, reflecting the benefit from improved market and the deconsolidation of Bernstein Research.

As we noted on our last call our early exit from our previous New York office resulted in $12 million of incremental lease expense this quarter. Excluding the duplicate lease expense, 3Q margins would have been nearly 33%.

We completed our New York City office move in September, the last major step in our North American relocation strategy.

As a result, we expect an incremental 100 basis points to 150 basis points of margin expansion going forward. Based on current market levels, we forecast a baseline adjusted operating margin of 33% for 2025, with upside potential from favorable markets.

We also see additional margin expansion over time as we continue to scale the business.

Before opening the line for questions, I want to thank my colleagues and their considerable efforts and acknowledge the significant progress we have made as an organization.

We remain committed to allocating capital efficiently, creating value for our clients, our investors, our employees and all our stakeholders, while we can currently diversify and grow our business.

With that, we are pleased to answer your questions.

Operator?

QUESTION & ANSWER:

Operator^ (Operator Instructions) And your first question comes from the line of Ben Budish with Barclays.

Ben Budish^ I appreciate the updated disclosure on the performance fees.

I was wondering if you could talk a little bit more about ABPCI.

It looks like, I would presume from in 2023, you had a big pickup in performance fees as rates rose generally.

It looks like it's intended to be maybe flattish to up slightly in 2024.

So can you talk a little bit more about that more about that strategy, what the kind of growth drivers are, what does that look like and how should we think about what that may look like in a in a declining rate environment? Should we see some compression of the fees as rates come down or what are the other factors to consider there?

Matt Bass^ Sure, Ben. This is Matt Bass, happy to take the question.

First, I would kind of anchor back to what we did late last year in terms of the enhanced disclosure on ABPCI.

I think it's a good kind of background to understand the growth and the drivers of the business.

But as it relates to the performance fees, look, they are the most predictable out of the private markets platform. They represent the majority.

I'd say there are a lot of drivers that you have to appreciate behind those performance fees.

Obviously it's volume in AUM that's going to have an impact. Base rates have an impact, so that has been a tailwind for us. That will be more of a headwind going forward.

Spread has an impact.

We've seen some spread compression this year as overall kind of public markets and private markets tightened. That's had an impact as well. There's mark-to-market of course and credit as well.

So those are all the factors.

All that said, we do see that as a consistent growth if you kind of strip out mark-to-market.

We've seen a nice trend in line with revenue growth.

I'd say going forward, obviously not all of our mandates in PCI have incentive fees.

So that's going to vary based on channel and obviously where we're growing is going to impact the amount of AUM with performance fees going forward with that business.

Ben Budish^ Got it. Very helpful. And then maybe kind of following up on the same subject, what do you see as the largest --potential future drivers, especially private markets performance? Because I know you, in September announced the launch of a new kind of democratized credit vehicle.

What else as we think farther out -- what else should we see as potential adders to that line?

Matt Bass^ Yes.

I've kind of anchored back to our growth strategy more broadly for privates, which we've articulated.

So we're scaling existing funds, existing evergreen funds.

In the case of AB Private Credit Investors, we've got a stable of evergreen funds. Many of those generate performance fees.

We're going to be launching -- we have launched products in existing and new channels.

As we've mentioned our focus certainly on the retail side leveraging our experience and track record in Bernstein Private Wealth. There's a big focus on the insurance side.

Obviously there's going to be a mix across those two channels where you're able to generate performance fees less so in insurance given more of an investment grade nature, lower spread kind of target those strategies.

And third, we're going to continue to kind of thoughtfully look to extend our teams. With 80 private credit investors, we talked about the addition of the NAV lending strategy last year.

So a combination of those gives us comfort in the organic growth trajectory, and it's going to be a mix on performance fees.

I think generally the more we grow in the insurance side, more investment grade private credit, your net debt.

It's not going to have less of a performance fee profile.

So it's going to be a mix and channel dependent.

Operator^ And your next question comes from the line of Bill Katz with TD Cowen. Your line is open.

Robin Holby^ This is Robin Holby on for Bill Katz.

I was wondering if we could just touch on the broader private market strategy.

If you could provide an update on the timeline to $100 billion in private markets AUM? How you get there from the current $68 billion? Any update on where you think the best opportunities are? And I know you just touched on the contribution from Equitable. Maybe if you could quantify that at all and then maybe some of the organic growth there as well?

Matt Bass^ Sure.

Look, we've shared our longer term target as part of Equitable's investor day last year.

We remain confident in the target.

I'd say it won't necessarily be linear, but we've got good support if it's the Equitable strategic partnership, if it's our business in private wealth.

In terms of how we get there organically kind of we've laid out the three pillars that we continue to execute on in terms of scaling existing capabilities across those channels, launching new products to new and existing channels, right, as well as team extensions which we'll continue to evaluate.

We'll look at M&A, but opportunistically we think the platform is largely complete.

In terms of the best opportunities, look, we think that the private credit market has a lot of room to continue to grow.

It's matured significantly over the past 15 years from what was an opportunistic credit market to a more diversified direct lending market.

We see corporate direct lending continue to grow and mature for sure. And at the same time, the growth in other forms of private credit, asset asset-backed finance, commercial real estate, infrastructure, the latter being very diversifying to traditional corporate credit.

So we see that as a very attractive longer-term growth opportunity.

It's also one of the reasons behind the acquisition of CarVal two years ago and how complementary that business is in terms of end-market focus in those non-corporate credit asset classes.

Onur Erzan^ Onur here, let me add that three data points to support what Matt was highlighting. Number one on Equitable, as you know we had a $20 billion commitment.

We are only 11 out of the 20 right now.

So that will definitely help in terms of achieving the 100.

Number two, in private wealth, we raised $2.3 billion of alts in the first three quarters, a record levels in ‘24.

So that gives us confidence in terms of our organic growth profile for alt in private wealth.

And number three, in terms of new channels that Matt touched on, we are definitely seeing more traction on the insurance channel given we made all the investments to create more investment grade fixed income substitute products out of private credit. And then our new retail vehicles, like you highlighted, like the interval fund we launched and our interval fund is already in the market.

We already onboarded to a third-party platform and we already have a couple of hundred million in that product already.

So as a result, the new channels will definitely be part of the growth story and we see the pre pipeline activity with clients and some of the platforms and money coming in on the retail side.

Robin Holby^   And then maybe if I could just have a quick follow-up on the margin guidance for FY'25, assuming flat markets.

Could you remind us of the incremental margin that we might be able to expect on market action and NAV?

Jackie Marks^   Just on the margin in general, yes.

As I said, we delivered 31.3% in the quarter.

We've guided to 33% in 2025 assuming flat market.

As you know we do not model markets. And we also continue to grow and scale our business for the future.

In terms of the specific NAV question, I think we'll have to follow-up afterwards.

I have an estimate, but I don't want to over commit.

So we'll take that one in the call afterwards if that's okay.

Operator^   And your next question comes from the line of Craig Siegenthaler with Bank of America.

Craig Siegenthaler^   After a long wait, the reallocations are finally here.

So and then actually you guys are seeing in both fixed income in the alts, but sadly not as much in active equity.

But my question here is, after we get through the election and some additional Fed cuts, do you think we could get another step up in reallocations and duration extension activity, especially if the yield curve steepens.

It appears that you guys are still very well positioned for this just given your business mix and performance.

Onur Erzan^   This is Onur. Let me take a first pass at it.

I mean number one, definitely we have seen great strength in fixed income and alternatives. Yes. You're right.

We are one of the early beneficiaries of the rotation to fixed income with $20 billion of net active inflows.

But also in equities, I wouldn't write them off.

As you know we had active net flows in our retail franchise in equities, and this was the second quarter.

So we're definitely seeing some channel strength at least in retail, hence our platform continues to be quite diversified.

Going back to your question on the steepening of the curve, absolutely, we definitely are seeing institutional interest in terms of further allocations to fixed income and that will definitely help in terms of new mandates, and not to mention our, again, insurance franchise, and we started to see new client activity there as well.

So all in all, stepping up the curve will definitely help us in terms of carrying out the momentum on fixed income and the broadening into other asset classes, starting with private credit, but also other adjacencies.

Seth Bernstein^   It's Seth, Craig. And I would just note that where we are seeing particularly strong demand is in the U.S. and in the muni SMA category, where we've really seen even stronger net flows as we take onboard new RIAs to our platform. And that is continuing now. And I do think that's where you'll see the particular duration extension as that's where it will play out.

We also note that in Asia, our flows are as strong today as they've been in a few years and that continues.

So I certainly think it's underway and fixed. And we're still seeing some positive active equity flows, as Onur had mentioned, albeit where we were seeing the issues was more on the institutional side of outflows.

Craig Siegenthaler^   My follow-up is another follow-up on expenses and the op margin.

So we've seen some nice improvement already and the Bernstein deconsolidation was a big factor.

But the big event we have been waiting for is really in December, when you stop paying rent on your former headquarters at 1345 6th Avenue.

So how much of that $50 million run rate should we expect to drop to the bottom line as the lease expires in two months? And it sounds like from the math on the 100 basis points and 150 basis points of margin expansion target that you gave us in the prepared remarks.

It sounds like most of that $50 million is dropping the bottom line.

Jackie Marks^ That's absolutely correct.

Our intention is to flow most of that, if not all of it through to the bottom line.

Operator^ And your next question comes from the line of John Dunn with Evercore ISI.

John Dunn^ You guys have talked in the past about increasing your business with third party insurers. You mentioned highlighted investment grade product.

Can you give us an update on this channel and the potential outlook and how do you go about making that sale?

Onur Erzan^ Sure. The good news is, again we are seeing accelerated commercial momentum, whether it's through the traditional third-party channel as well as in new cap formation in the insurance industry through our engagement with different reinsurance and sidecar opportunities.

In terms of the activity, we recently for instance won a competitive process for a large reinsurance company on the property and casualty side to add to their asset management roster in investment grade.

So that's an example of the competitive strength we are building in this channel on back of the investments we made into building that channel, right? What have we done? We basically created insurance dedicated resources front to back.

We expanded our portfolio management capabilities dedicated to insurance companies on the multi-sector side.

And then on top of that, we created very capital efficient insurance wrappers and IG oriented private credit strategies, whether it's the rated feeders for the middle market lending, Resi mortgage kind of strategies as well as NAV finance type of new extensions out of our middle market lending platform.

So we remain quite confident that we'll see more new third-party insurance money coming into these products in this quarter or spanning into ‘25.

Furthermore, obviously Equitable strength in the RILA market, registered index market helps us with the general account growth in addition to some of the expansion in the lifetime income space, where again we benefit directly and indirectly from that new product channel.

So all in all, those are the drivers of the expected continued growth in the insurance channel for us, equitable as well as third party.

Seth Bernstein^ And it's not just here in the United States either.

We're seeing that interest amongst insurers both in Europe and in Asia as well.

Onur Erzan^ 100% like for instance in Asia, they have been the early investors in our growing systematic fixed income franchise. And that is a really nice thing to see both from expansion in fixed income, which plays into the duration and skipping of the yield curve story and then obviously the international franchise we have, including core markets like Japan.

John Dunn^ And then maybe one on private wealth, you guys expressed confidence that the outlook for flows in that channel. Maybe you could just talk about stuff that you expect to start inflowing beyond what's already working right now?

Matt Bass^ Yes. Sure. John, thanks for the question. Like first of all, as the rates come down, it helps with the flows and we have seen that playing into our numbers on a gradual basis in 2024. Why does rates coming down help us? Number one, the risk appetite goes higher in terms of moving away from cash, which we have seen. And then we have seen also an increase in the M&A activity. And M&A activity matters for us because we have a very strong franchise with business owners. And when there is more monetization, liquidation kind of events, it turns into net flow for our private wealth channel.

And as we have discussed, our ultra network channel is a faster growing segment of our business. That's basically the story that will play.

So as a result, I remain optimistic about our flow trajectory moving into October and beyond. And now furthermore, I want to clarify something.

At the end, in terms of our flow reporting, we tend to take a conservative approach.

We don't take credit for dividends or interest, while some of the wealth managers in their net flow calculations take credit for that. And in certain cases, it might add to couple of percentage net flows.

So hence, our conservative net flow methodology sometimes makes it harder to make apples to apples comparisons.

Operator^ And your next question comes from the line of Dan Fannon with Jefferies.

Rick Roy^ This is Rick Roy on for Dan Fannon. And two sets of questions, one focused on the alts and then, one elsewhere.

So on CarVal, now close to three years since the close, how do you view, I guess, the current alternatives offering, especially considering the current market dynamic with what's going on with CLOs? And separately, do you have appetite to do additional M&A beyond CarVal now given the timeline since close?

Matt Bass^ Sure. It's Matt.

I'll take this.

So in terms of CarVal, little over two years post-closing and I'd say, look, we first of all, we got what we thought in terms of the people, the investment capabilities, the culture.

We got strong conviction in the business in the long-term growth opportunity, specifically the markets that CarVal operates in.

If it's private asset backed finance broadly, the energy transition space, their opportunistic investing capabilities, so all kind of growth vectors, the channels we're looking to penetrate if it's insurance and retail as well. And again very complementary to our overall existing platform.

So look, we're starting to see some traction here based on the products that we've been developing over the past two years.

We mentioned the credit opportunity fund, the interval fund, some traction on the insurance side, asset-backed finance more broadly.

So remain very convicted and kind of a long-term growth opportunity.

It's a key driver for the overall business.

Onur Erzan^ And on CLOs, the third quarter was very strong.

We had $1.3 billion in CLOs.

We priced multiple CLOs, both in the U.S. and overseas.

So that speaks to the global nature of our CLO platform. And the good thing about CLOs is CLOs don't flow through our pipeline.

So that flows through sales typically.

So that's a bit of an incremental bonus that you don't typically follow in the pipeline.

Rick Roy^ And if I could switch gears maybe talking about the APAC strategy. And then kind of separating out into two regions.

Obviously Japan, retail especially has been a source of pretty solid organic growth for you guys.

But then also on the other end of the spectrum, talking to obtaining a license in China earlier on here.

If you could kind of expand upon these strategies, is there a plan perhaps to expand AUM in the Japan region, perhaps expand into different channels? And then also what is -- has there been any changes to the go-forward strategy for China as well?

Onur Erzan^ Yes. Sure. Let me address that.

In Japan, our organic growth continues and despite some of the change with elections, et cetera in Japan, we did not lose any major momentum.

So that's great news, and it helps a lot with our retail equity picture. And then we have a strong institutional presence in Japan as well as I touched on before.

For instance, it has been an early adapter of our systematic fixed-income strategies in institutional as an example.

So I expect Japan to continue to be a growth geography for us with very healthy fees and margin.

In terms of the rest of Asia, as you know Asia as Japan also is hard to ignore for us, given it is a very sizable region and that has been a big driver of our taxable fixed income growth. And we continue to look for extensions as we have accomplished in Taiwan, looking at ETFs, looking at private credit as additional building blocks for accelerating our growth in that region.

China, as we laid out in the past is a long-term play for us like many of our peers.

As you remember, it's a start-up business.

We just got the license in December 2023, and we launched our first fund only in April, which was probably one of the worst times in the equity markets. Very pleased with the performance of that IPO.

I think at that time, it was a top-decile asset gatherer, albeit very low capital raise levels at that point. And we continue to evaluate our strategy in China to see what are the ways to accelerate the time to breakeven.

It's not an outsized investment for us, and it's a long-term play.

So no major changes in our strategy.

It's not going to be accretive to our revenue or earnings in the very short term, but it has a sizable long-term potential.

Rick Roy^   And perhaps one quick one on CarVal. The updated tax guidance related to the CarVal contingent liability.

Is that an expression on perhaps accounting for future carried interest relative to when certain obligations remain at the time of the deal? Or if you could just expand on how that impacted tax status, if I'm incorrect there?

Matt Bass^   Sure. And I'll let Jackie chime in on the tax specifics, but this was related to contingent consideration at the time of the acquisition to the earn out.

So we look at this on a quarterly basis and certainly with some of the growth being pushed out, capital raising cycles longer, net deployment slower initially, although that's certainly kind of picking up. That was behind the contingent liability change.

So all that considered we still have real conviction as I mentioned in the business and particularly where we're set up to grow in terms of asset classes, if its private asset backspace, energy transition and the channels we're growing in.

So again all really consistent with our thesis behind the acquisition which was to kind of leverage the existing team's investment capabilities, origination capabilities into lower cost of capital strategies, new channels as well.

Jackie Marks^   And just to add to that on the tax piece, yes, the tax doesn't have anything to do with the with carry.

It's really solely because of the write down and therefore it's one time in nature this quarter.

Operator^   And your next question comes from the line of Alex Blostein with Goldman Sachs.

Aditya Sharma^   This is actually Aditya filling in for Alex. Just a broad question. How do you view the active ETF opportunity set from here? What are the type of dialogues that you are having with clients and intermediary channels to assess the appetite for this product?

Onur Erzan^   Sure. Let me take that.

We are roughly two years into our active ETF journey.

We had our second anniversary actually in September ‘24. Very pleased with the success out of the gate. Two years in, $5 plus billion of AUM across 15 products. This is all U.S. at this point, given active ETFs have been more widely adopted in the U.S. given tax and other differences.

Our product innovation continues.

We continue to look at both thematic as well as buffered ETF type of risk managed strategies, and we continue to explore the timing to take our capabilities to overseas markets, whether it's Taiwan or Korea, as examples.

The good news about our trajectory is for the ETF product to be added to some of the large broker dealers like warehouses, think about Merrill Morgan, UBS, et cetera, there are typically minimum time in market and AUM thresholds.

So the longer you are in the market, the more AUM you build up in other channels, whether it's our own private wealth channel, RIA channel, direct channels, then your ability to grow in the large broker dealer channel goes up. Given we are strong partners in that channel with our other products like SMAs, ETFs remains as a great cross sell opportunity for us, and you will see more of our ETFs making to that shelf as the time passes with the duration of the product and AUM thresholds clearing at the minimums.

So overall, we remain bullish and that will be a net flow story for us moving forward.

Seth Bernstein^   I think it's worth just noting that 70% of that $5 billion is new money and not conversions from existing strategies. To just owner's point, it's enabled us to take some of our newer ideas and apply them in a new space. And so it's worked, and we continue to want to push on that.

Operator^   And there are no further questions at this time.

Mr. Jorgali, I will turn the call back over to you.

Ioanis Jorgali^   Thank you all for joining today.

Please follow up if you have any questions with IR.

Have a great day.