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PRESENTATION

Operator

Thank you for standing by, and welcome to the AllianceBernstein Fourth Quarter 2020 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 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 2020 earnings review. This conference call is being webcast and accompanied by a slide presentation that's posted in the Investor Relations section of our website, www.alliancebernstein.com. Seth Bernstein, our President and CEO; and Ali Dibadj, Head of Finance and Strategy, will present our results. 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 2020 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. 2020 forced all of us to face unexpected challenges unparalleled in both scope and scale. While the impacts of COVID-19, civil unrest and depressed economic activity continue to reverberate today, the initial onset and subsequent reactions shaped a year unlike any other. I'm proud to say that at AllianceBernstein, we learned from these challenges, grew as an organization and emerged even stronger than when we started the year. We acted first to ensure the health and safety of our employees, enabling us to be fully invested with our clients and their needs through volatile dynamic market conditions. We also meaningfully stepped up our focus and commitment to practicing true corporate responsibility, improving diversity and inclusion on our Board and Operating Committee and adopted key commitments to ESG and racial equity, all while continuing to invest in the health and well-being of the communities in which we are a part.

In 2020, we made progress on several strategic growth initiatives, including: initiating our European commercial real estate debt and CLO private alternative platforms, both in partnership with Equitable; building our onshore presence in China, and further broadening our Asian footprint, which we recently received 6 prestigious awards in Asia Asset Management's 2021 Best of the Best; launching 6 new multi-asset products; expanding our ESG leadership and capabilities rooted in our distinct strength in fundamental research; and executing our Nashville headquarters relocation, which remains on track with our new office building opening next quarter and was modestly accretive to earnings in 2020.

Our long-term investment performance remained solid, with our talented teams continuing to generate idiosyncratic returns that can't be replicated. For the year, we posted active organic growth of 3%, net of expected AXA redemptions, while expanding our margins to meet our 2020 adjusted operating margin target of 30%. We delivered 15% 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 of $31.3 billion were up $4 billion or 16% from a year ago, a strong finish to the year. Full year gross sales of $124 billion were up 20% from the prior year, the strongest year in over a decade, reflecting broad-based growth across all 3 channels. Fourth quarter firm-wide active net inflows were $5.2 billion, excluding AXA redemptions, a 4% annualized active organic growth rate. Full year active net inflows of $14.9 billion, excluding expected AXA redemptions, represented a 3% active organic growth rate. Year-end assets under management of $686 billion increased 10% year-over-year, while full year average AUM of $620 billion increased 8% versus the prior year.

Slide 5 shows our quarterly flow trend by channel. Fourth quarter firm-wide net inflows reflected strong growth in institutional, offset by net outflows in Retail and Private Wealth. Retail experienced active net inflows, driven by active equities and munis, offset by passive outflows. Institutional gross sales strengthened to $9.9 billion, excluding the AXA redemptions. We generated net inflows of $5.7 billion with both active equities and active fixed income growing by 10% annualized. In Private Wealth, gross sales increased 37% year-over-year and were up 6% sequentially with significant productivity gains. Net outflows were $1.1 billion in the quarter.

Slide 6 shows annual net flows trends. Buoyed by our strongest sales year since 2007, firm-wide net inflows of $9.2 billion, ex AXA redemptions, reflected strong growth in institutional, offset by net outflows in Retail and Private Wealth. Retail posted its strongest sales year ever with active inflows of $3.1 billion, driven by equities, offset by passive outflows of $4.6 billion. Institutional posted its strongest sales in over a decade and grew net inflows by $1 billion or $12.8 billion, excluding AXA redemptions. Private Wealth also had its strongest sales year in over a decade. Outflows of $2 billion reflected in part of flight to safety as investors shunned volatility and weaker shorter-term investment performance.

Now let's turn to investment performance beginning on Slide 7. Clearly, 2020 was a stunning year for global financial markets. The market turmoil of March and April seems today to be a distant memory following the provision of massive and coordinated monetary stimulus from central banks and astonishing fiscal policy support, which continues today. Our teams responded well in a volatile market, and were positioned to take advantage of the ensuing recovery in risk assets. In the fourth quarter, our fixed income performance continued to improve as multi-sector credit positioning once again benefited from a risk-on environment. Credit sectors outperformed government in the quarter with the U.S. high-yield up 6.5%, European high-yield up 5.6%, emerging markets up 4.5% and U.S. corporates up 3%, all posting healthy excess returns versus governments, which returned minus 0.8%.

In fixed income, 62% of assets outperformed over the 3-year period and 79% outperformed over the 5-year period. On a 1-year basis, the percentage of assets outperforming improved to 43%, reflecting strength in our Municipal and Global Plus products. Our flagship Global High-Yield portfolio continued its strong recovery following a difficult first quarter, placing it in the eighth percentile of its Morningstar peer group in the fourth quarter and the tenth percentile for the 9 months ending in December. American income was in the second quartile for these periods and remains top quartile over the 3-, 5- and 10-year periods, as shown on Slide 21 of the appendix.

Long-term equity performance remained solid as 61% of assets outperformed over the 3-year period and 53% outperformed over the 5-year period. In the most recent 1-year period, 41% of assets outperformed, reflecting the outsized weightings of the top 5 mega cap stocks in certain benchmarks. As we noted last quarter, momentum and beta are prominent factor risks for these stocks to which we remain sensitive. The market broadened considerably in the fourth quarter with U.S. small caps up 31% and value leading growth. In this environment, our [key] (added by company after the call) value portfolios delivered by outperforming peers in the quarter as cyclical value came back into vogue in November and December. Our diverse equity offering is positioned to participate should markets continue to broaden across styles and capitalization ranges.

Moving on to our client channels, beginning with Retail on Slide 8. 2020 saw banner Retail sales of $79 billion, up 5% year-over-year. U.S. sales were up 21% and Japan doubled, while Asia, ex Japan sales, declined by 15% versus a robust 2019. Despite experiencing record first quarter redemptions due to the industry-wide sell-off in March, we generated active net inflows for the full year of $3.1 billion. As shown on the upper left chart, 2020 was our fourth consecutive year of active equity growth. We delivered 7% organic growth in 2020 and 8% on average over the last 4 years in the face of unrelenting industry headwinds.

Our Retail offering is the most balanced it has been in years with equity contributing 46% of sales and fixed income, 45%. By geography, Asia, ex Japan, and the U.S. represent 38% and 37% of sales, respectively. Japan is now 11%, with EMEA and Latin America rounding out our offering. We now have 59 products of more than $1 billion each, balanced across asset classes, including 15 alts and multi-assets. Several of our largest funds posted very strong flow rankings in 2020, as shown on the bottom right.

Now I'll discuss institutional on Slide 9. Full year gross sales of $30.9 billion were up 81% year-over-year, the highest level in over a decade. Excluding the planned AXA redemptions, we generated $12.8 billion of net inflows. Active equity sales accelerated in 2020 to the highest level in over a decade. We've now posted sales greater than $2 billion for 7 of the past 8 quarters. Fixed income sales were also robust, up 260%, driven by core mortgage and securitized debt. Full year net flows were led by active equity, which grew organically by $7.2 billion or 16% year-over-year. Equity flows led by global core, international small-cap, U.S.- concentrated growth and international strategic value. We also had diversifying flows from China value and low-vol total return.

In alternatives, we launched our European commercial real estate debt platform in the quarter, supported by a sizable commitment from Equitable. This platform extends geographic capabilities while leveraging our strong relationship with Equitable as they see yield-enhancing investment alternatives. We were also excited to have closed and funded our first CLO, a $400 million offering, the first of hopefully many to come. Our ESG-focused Portfolios with Purpose have now grown to $16.5 billion, up 60% year-over-year. We continue to see strong interest from global investors and consultants in ESG-focused products and have several more in development. Our green managed volatility equities fund was recently awarded Most Innovative Launch by Investment Week, and we had 3 finalists named by U.K.-based ESG Investing in their 2021 Investor awards.

Our institutional pipeline was $12.2 billion at quarter end, reflecting several sizable fundings during the quarter, including a $4 billion agency MBS mandate. We added $4.2 billion in pipeline additions in the quarter. Notable pipeline additions include $1.3 billion of global credit, $750 million in European value and $450 million in our fourth U.S. commercial real estate debt fund and $400 million in global health care.

Moving to Private Wealth Management on Slide 10. Full year gross sales of $14 billion increased by 27% year-over-year and were the highest in over a decade. The top left graph shows strong improvement in our adviser productivity, up 21% in the fourth quarter and up 16% for the full year. Productivity levels approached all-time highs last seen before the financial crisis. Redemptions of $16 billion partially reflected a customer flight to safety for our single strategy-related outflows early in 2020 which have since abated with meaningfully improved performance. Full year net outflows were $2 billion. As we closed the year, we saw evidence that an uptick in broader M&A activity is leading to thawing in business transactions, which bodes well for client fundings. We raised $850 million in alternatives through this channel in 2020 across a number of different strategies, including Asturias, the long/short TMT strategy acquired in early 2020.

Muni impact is now over $1 billion in AUM and up 55% from the prior year. Our ESG-focused strategies in Private Wealth grew 65% last year to $4.5 billion in AUM with additional product launches planned for the near term. And our proprietary separately managed equity tax less harvesting product recently surpassed $500 million with AUM up 52% sequentially.

I'll finish our business overview with the sell-side on Slide 11. Elevated market volatility in 2020 drove an increase in Bernstein Research's global client trading volumes, both for the fourth quarter and for the full year. Revenues increased by 7% in the fourth quarter and 13% for the full year as compared with prior periods. We were particularly pleased to see strong growth in Asia, including in India, where we've made focused investments. Our U.S. business also posted strong growth. While Bernstein Research provided a valuable hedge to our core asset management business during the extreme volatility in early 2020, secular challenges in the research business remain. We would not expect last year's market volatility, stemming primarily from COVID-19, to persist over the long term.

In 2020, we embedded a proprietary bottom-up fundamental approach to ESG into our global research. We hosted a global webinar series, authored nearly 200 reports exploring ESG-related themes, published a global online collaboration evaluating the impacts of climate change for each sector. Highlights of our full year accomplishments are shown on Slide 12.

61% of our equity assets and 62% of our fixed income assets are outperforming over 3 years. We continue to show remarkable traction delivering differentiated return streams in active equities as Retail and institutional grew organically by 7% and 16%, respectively. Our ESG offering is growing quickly with AUM up $16.5 billion at year-end, up 60% in 2020. We drove full year active inflows in both retail and institutional, overcoming the AXA redemptions. Our institutional pipeline of $12.2 billion at year-end has a fee base with a mix of over 80% active equity and alternatives. And we continue to grow our suite of alternative and multi-asset offerings, including the fourth quarter launch of our CLO and European commercial real estate debt businesses as well as 6 multi-asset strategies and more expected to come in 2021.

We are committed to managing our business to deliver strong incremental operating margins. Our full year adjusted operating margin of 30.1% was up 260 basis points year-over-year, with full year earnings and unitholder distributions up 15% versus the prior year.

Now I'll turn it over to Ali Dibadj to walk through the financials.

Ali Dibadj - *AllianceBernstein L.P. - Head of Finance & Strategy and Portfolio Manager*

Thanks, Seth. Let's start with the GAAP income statement on Slide 14. Fourth quarter GAAP net revenues of $1.1 billion increased 8% from the prior year period. Operating income of $302 million increased 13%, and operating margin of 28.4% increased by 200 basis points. GAAP EPU of $0.97 in the quarter increased by 15% year-over-year.

For the full year, GAAP net revenues of $3.7 billion increased 5%, operating income of $907 million rose 10% and operating margin of 24.6% increased by 200 basis points. Full year GAAP EPU of $2.88 increased by 16% 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 reconciliation of GAAP to adjusted results are in our presentation appendix, press release and 10-K. Our adjusted financials are included on Slide 15.

Fourth quarter revenues of $880 million increased by 8%, operating income of $301 million increased by 14% and operating margin of 34.2% increased by 190 basis points. We earned and will distribute to our unitholders $0.97 per unit, up 14% as compared to $0.85 for last year's fourth quarter. Higher base and performance fees as well as higher Bernstein Research revenues, coupled with lower promotion and servicing and lower G&A expenses drove the stronger results. For the year, revenues increased 5% to $3 billion operating income increased 14% to $918 million and operating margin increased 260 basis points to 30.1%, meeting our previously stated 2020 adjusted operating margin target of 30%. Adjusted EPU increased by 15% to $2.91 from the prior year's $2.52. Higher base and performance fees and higher Bernstein Research services revenues, combined with lower promotion and servicing expenses and moderated G&A increases drove the stronger results.

We delve into these items in more detail on our adjusted income statement on Slide 16. Beginning with revenues. Net revenues increased 8% for the fourth quarter and 5% for the full year versus the same prior year periods. Base fees increased 4% for the fourth quarter and 3% for the full year as higher average AUM across all 3 distribution channels was offset by a lower year-over-year portfolio fee rate. The fourth quarter fee rate of 38.7 basis points rose 0.4 basis points sequentially and declined 1.1 basis points year-over-year. This is in line to what we had told you last quarter. And we continue to believe that although our fee rate may be volatile from time to time, given large mandates in our pipeline that may skew averages, the long-term trend should be trending higher.

Fourth quarter performance fees of $109 million increased by $35 million over the prior year period due to strong performance fees earned by Arya Partners, our multi-manager long/short equity platform, which earned $79 million in the quarter. U.S. concentrated growth earned $8 million of performance fees in the quarter, and our private middle market lending business earned $6 million. Full year performance fees of $130 million compared to $97 million for the same prior year period, reflecting the fourth quarter strength in the Arya platform. We are very proud of how area performed in a challenging year and believe it has established itself among the leading multi-manager platforms in the industry.

Fourth quarter and full year revenues for Bernstein Research Services increased 7% and 13%, respectively, from the same prior year period, driven primarily by higher client trading activity in the U.S. and Asia, given the volatility in the markets from the pandemic, U.S. election and geopolitical fluctuations. Excluding the contribution from Autonomous, Bernstein Research revenues increased 10% for the full year while Autonomous continues to meet its objectives.

We incurred investment losses of $1 million in the fourth quarter and $7 million for the full year, primarily seed capital-related, as compared to investment gains in the prior period.

Moving to adjusted expenses. All in, our total fourth quarter operating expense of $579 million increased 5% year-over-year. Full year operating expense of $2.1 billion increased just 1% from the prior year, reflecting the benefit of lower travel, entertainment and meeting costs due to the COVID pandemic, for which I'll provide more detail shortly. Total compensation and benefits expense increased 12% in the fourth quarter, primarily due to higher incentive compensation, driven by higher performance fee revenue. For the full year, compensation and benefits increased 4%, again, driven primarily by higher incentive compensation associated with higher performance fees.

Compensation was 46.7% of adjusted net revenues for the fourth quarter versus 44.8% in the prior year period. The full year 2020 compensation ratio was 47.9%, flat from the prior year and in line with what we had said last quarter. Given current market conditions, we plan to accrue compensation at a 48.5% ratio in the first quarter of 2021 with the option to adjust accordingly throughout the year if market conditions change. To offer more clarity on the comp ratio, it is our best estimate right now. And you should not only expect downward moves in this comp ratio given that performance fees have become a bigger piece of our business and may drive it up, fringe benefits may ramp up this year more than expected post-COVID and market conditions remain uncertain.

Promotion and servicing costs declined 22% in the fourth quarter and 18% for the full year due to lower T&E and lower meeting costs owing to the COVID-19 pandemic. Although an imperfect exercise, we estimate the COVID-related reduction in these expenses to be about $20 million for the fourth quarter and about $50 million for the full year versus the prior year periods. Going forward, while we strive to realize some portion of ongoing efficiencies, we would not expect 2021 promotion and servicing spend levels to be anywhere as low once the pandemic subsides, and we are seeing some return of these expenses given our global footprint in regions such as Asia.

Trade execution costs rose due to higher Bernstein Research client trading volumes in both comparison periods. G&A expenses declined 2% in the fourth quarter and rose 2% for the full year versus the same prior year periods. For the fourth quarter, lower occupancy and professional services fees were partially offset by higher technology and market data-related expenses. The 2% full year increase was driven by higher market data services and technology expenses, partially offset by lower professional fees. Intangible expenses declined in the fourth quarter as a $5 million quarterly amortization charge associated with our acquisition of Bernstein 20 years ago ended in the third quarter of 2020.

Fourth quarter operating income of $301 million and full year 2020 operating income of $918 million both increased 14% versus the prior year period as revenue growth outpaced expense increases. Fourth quarter operating margin of 34.2% was up 190 basis points year-on-year, reflecting the operating leverage of our business. The incremental fourth quarter margin was 60% as compared to the prior year period. Our full year 2020 operating margin of 30.1% increased 260 basis points from 2019. While we are pleased to have met our previously communicated 2020 margin target of 30%, as mentioned, we would not expect the majority of 2020 COVID-related expense savings to persist once the pandemic subsides. We do not plan on setting a new adjusted operating margin target going forward. We will, however, continue to manage the business to an incremental margin of 45% to 50% not necessarily every year, but on average over time.

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 was $1 million below GAAP operating earnings due to the net impact of real estate-related charges and acquisition-related expenses and contingent payments. For the full year, adjusted operating income was $11 million or $0.03 per EPU higher than GAAP due to the favorable net impact of real estate and acquisition-related credits, offset by contingent payments. The full year 2020 effective tax rate for AllianceBernstein L.P. was 5%, about as expected. Going forward, we expect an effective tax rate for 2021 of approximately 5.5% to 6%, with the first quarter is anticipated to exceed this at 7% or slightly above resulting from onetime items related to our Autonomous acquisition.

I'll finish with an update on our planned corporate headquarters relocation to Nashville. Our relocation is going very well, and our employees and the people of Nashville should be very proud of such progress during a very challenging year for our headquarter city. At year-end, we had 789 Nashville-based employees, nearly 2/3 of the way to our target of 1,250. Following 4 months of COVID-related construction delays earlier in 2020, which reduced the expense of the move for that year, we took possession of our new headquarter building in the fourth quarter. We're planning to move employees into the new building when pandemic subsides.

For the fourth quarter, estimated expense savings related to our Nashville corporate headquarters relocation totaled $10 million compared to transition costs of $6 million, resulting in a net $4 million increase in operating income or a net $0.02 accretion to EPU. Of the net $4 million, approximately $6 million is compensation related, offset by $2 million of increased occupancy costs. For the full year 2020, expense savings of $30 million were greater than transition costs of $26 million, resulting in slightly less than $4 million contribution to operating income for a net increase of $0.01 per unit. Of the net $4 million, approximately $13 million is compensation related savings, offset by $9 million of increased occupancy costs. For 2021, we expect similar accretion of around $0.02 per unit, increasing each year thereafter.

We now estimate ongoing annual expense savings beginning in 2025, once the transition period is over, to be toward the upper end of the range of $75 million to $80 million per year. Cumulative transition costs, which began in 2018 and will last through 2024, are now estimated to be $145 million to $155 million, which is $10 million less than our prior estimate of $155 million to $165 million. Cumulative savings over this period are now estimated to be $205 million to $215 million, approximately $20 million above our prior estimate of $185 million to $195 million.

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. Our 2020 results reflect good progress as we continue to focus on the dimensions we've previously outlined. Firstly, we drove 3% active organic growth, ex the AXA outflows, based on differentiated investment performance. Over the last 5 years, we've generated average active organic growth of 2% with active equities accelerating in recent years. We expanded our suite of higher fee alternatives, completing entry into both the CLO market and the European commercial real estate debt market. We continue to enjoy invaluable support from Equitable for these and future growth plans given their strong mutual interest in growing our yield-enhancing, longer-dated alternative strategies.

While spending was reduced due to COVID-19 related travel and meeting restrictions, we drove strong incremental margin growth in 2020, expanding margins year-over-year, with G&A up less than 2%. As a partnership, we have a durably low tax rate. And we're paying a distribution of $2.91 per unit for our full year, a robust yield of 7% in a low rate environment. We'll keep you updated on further progress on these initiatives throughout 2021.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first response is from Mike Carrier.

Michael Roger Carrier - *BofA Securities, Research Division - Director*

I guess first on flows. Those institutional flows in the pipeline look great, while, obviously, retail and private wealth, a bit weaker. Curious what drove maybe the outflows in those channels. If there was any seasonality in the fourth quarter. And then probably more importantly, just how you see that trending ahead if there was anything more unusual in the recent periods?

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

Mike, it's Seth. Thank you for the question. I don't -- I think the issues are less seasonal. With respect to non-Japan/Asia, there has been less interest in fixed income, as we have been highlighting earlier on. Whether it was dollar weakness, whether it's the expectation of higher rates going forward. But also, there is a competing bid for our clients' money onshore in equities, in particular, which has been a real source of interest for them. But I would say in Asia more generally, we've done much better than we have done in historical periods of redemptions because we have better balance, particularly with the growth of retail equity positive flows in Japan. So it's actually been a pretty balanced story for us there, and we've had much stronger results in the U.S. So that's helped offset in Retail.

Just switching over to private client, I think there were issues that were, frankly, more idiosyncratic to the -- to that channel for us, specifically, the services they used underperformed. They had a number of underperforming services earlier on in the year that have clawed back performance. So the outflows have abated for the most part, and we're seeing a bit of a change in trend that's favorable, but we'll see. So I think until and when there's more confidence around U.S. rates and frankly, as rates rise, as you know, the appeal of fixed income becomes a lot higher. As someone said to me yesterday, "It'd be great if we got to a 150 10-year quickly." I think we're just going to be watching as the market evolves.

Michael Roger Carrier - *BofA Securities, Research Division - Director*

Okay. Great. And then Ali, just on the noncomp expenses. Historically, you guys grew like G&A, somewhere around inflation. So I just want to see, one, is that kind of the same outlook? Or are there any kind of new investments that are needed? And then in terms of the COVID costs, I wasn't sure if you said it was $50 million in '20. And if so, just roughly, what do you think that normalizes like post-COVID? Meaning, do you expect some changes in behavior, I mean, that can reduce maybe that run rate level over the longer term?

Ali Dibadj - *AllianceBernstein L.P. - Head of Finance & Strategy and Portfolio Manager*

Yes. Thanks, Mike. So taking it step-by-step. First, in terms of our noncomp expenses, we continue to expect that to grow in line with inflation and we'll manage it to do so. But there will be a ramp-up in occupancy expenses because of Nashville, and that's something that we've talked about before. So inflation plus a little bit is how I think about it given our headquarters and given that we're -- we took the sort of occupancy at the end of last year, and we'll continue to build that out and hopefully occupy that over the course of this year. But no major change from what we've said before in that area at all. There are places we're going to invest for sure, but we want to handle it within that guidance.

In terms of the COVID savings, yes, you're correct. So $50 million, rough math, it isn't perfect, but is our estimate of what we think the impact was in 2020. We are already seeing some of that ramp back up. So for example, we're a global hub institution, we're seeing some of that ramp back up in Asia, as an example. And a lot of that, obviously, was driven by T&E expenses being lower, firm meetings being lower, those types of things. And we all hope that as the pandemic subsides, we get to meet our clients more face-to-face, we get to meet each other face-to-face much more, and that will ramp back up. Look, we don't know, right, just as well as you do, exactly when that's going to happen and how that's going to happen. We're certainly thinking about doing things somewhat differently, but I wouldn't anticipate that we get to save the majority of that at all.

Operator

Your next response is from Craig Sieganthaler.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

Can you guys hear me?

Ali Dibadj - *AllianceBernstein L.P. - Head of Finance & Strategy and Portfolio Manager*

Yes, Craig, we can hear you.

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

Yes, we can hear you.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

All right. So I wanted to start with your strategic partnership with Equitable. Can you remind us what the current mix of product at Equitable is now? And also, can you help us size the potential AUM opportunity to AB from the future rotation into Alton private credit as they look to enhance their portfolio?

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

Sure. Look, they've been absolutely critical, as you know, and before them AXA, in helping us facilitate the development of our new business. So the CLO business that we just launched in October, it was a $405 million deal. And then the European commercial real estate group, which we have just formed last year, recruited. They're really the cornerstone investor in both of those transactions. So they continue to be critical to our growth plans and have really been a very easy partner to work with. Just to give you some background, at the end of last year, we had about just shy of $130 billion with them, which is about 19% of our assets. The majority of that is institutional, which is really fixed income, high-grade fixed income for the most part, not entirely. But as you know, that's really for the general account. They are looking to increase the yield on that portfolio. And in that, there is an opportunity for us to further penetrate and build.

You need to talk to them specifically about what their plans are, but we see the opportunity in terms of AUM for us more than several billion dollars in terms of incremental AUM that will flow over time and hopefully, more than that, that would arise from that. But we really look to them principally to help us as the cornerstone investor to get the services launched and as continuing investors for those that make sense for them. Like PCI, which is our middle-market lending business, U.S. commercial real estate debt, both of which they're quite significantly invested in. I hope that answers your question.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

No. That was great, Seth. And I just had a follow-up on the alts business, and I was looking for some commentary on your bigger platforms like Arya, real estate debt, which you kind of just hit on, and then also private credit. But what does the fundraising pipeline look like across these businesses? Do you have any kind of key product holes you're looking to fill? And also, can you comment on investment performance too in these businesses?

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

Sure. I mean let me be -- I'm going to be a little more general, and we can follow-up later with specifics, Mark, unless you have them at hand. We have a pretty significant pipeline ahead of us. We're in -- we already had a close in our fourth commercial -- U.S. commercial real estate debt offering, and we're planning, I think, a second larger close. We're looking for around over $2 billion in that total raise is my thought, but they will clarify --

Mark will clarify for me if that's incorrect. PCI continues to have fundraising needs, which are launching this year, as is European commercial real estate debt. So on all of them, we have what I think are significant fundraising expectations this year.

With regard to Arya, which you didn't bring up, but I just thought I would bring up in connection with this, which, as you know, is our multi-pad long/short manager, which has had really good performance. They too see funding opportunities this year, both for the main fund and some more specific funds under that umbrella like Astorias, which is a TMT fund, which has had very strong performance. So we see opportunities there as well.

I'm sorry, there as a second part of your question?

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

So investment performance was the second part.

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

Sorry. Sorry. Thank you.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

And then the first part was fundraising.

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

Yes. So I've tried to answer, multibillions of dollars of fundraising for this year for our private credit products, as I broadly laid out to you. With respect to performance, look, all credit, particularly noninvestment-grade credit, got hit fairly hard in the March, April time frame when the bottom fell out. We've seen really good recoveries, both in PCI, our middle-market lending business and stability in our U.S. commercial real estate business. I think the U.S. commercial real estate credit marketplace is going to take years to work out generally. We feel we're in a very good competitive position, but there are challenges certainly in that space. But all in all, I think our performance has been quite competitive.

Operator

Your next response is from John Dunn.

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

The tax alpha strategies should be winners over the next few years, and it's small for you guys, but growing like a weed. How are you selling that? And what do you think maybe it could look like down the road size-wise?

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

Look, we have focused it initially on our private client business where the need is most acute. As you've said, it has been growing like a weed. Philosophically, for us, it's important that our clients recognize that we are flexible and want to move where they are with regard to how they want to build their core portfolios. And our view is that customizable indexing and SMA format is a very fast-growing opportunity for us. And I think for others, and so we are looking at other indices to be thinking about, whether-ESG oriented, more challenging globally, but there are still a lot of opportunities there. It's hard for me to put a number on it, but we think we have the technology, we think we have the talent to do that and do it in a thoughtful manner.

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

Got you. And then one more on ESG. How do you guys differentiate on that? Like, what are some of the largest strategies that are in the $6.5 billion? And particularly, what products are Private Wealth manager in that channel, what are they gravitating to?

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

Yes. Look, I think there's an enormous amount of talk about ESG. I think it's very important to get into the weeds of what it really means. So I'm glad you asked the question that way. Look, we think that evaluating companies on a variety of different lenses, especially understanding what are the sort of costs of strategies that are not properly incorporated into the discount rate that we're valuing those companies is a dangerous place to be. And so we have long developed internally a number of tools, whether it's in credit or in fixed -- in equities, where we are sharing data among analysts across asset classes in order to identify and frankly, properly price the risk we see in the broader portfolios. And so I would tell you, nearly 80% of our AUM today, and it's $600-and-something billion, currently is managed using ESG integration. However, we have $16 billion in what we call portfolios with purposes. Those are the funds that have a specific mandate with specific ESG targets and goals and reporting. These -- some would call them double bottom line kinds of investments where we feel obliged to actually be measuring impact through our activism, through the company's own strategy in reducing whatever negative externality we're focused on. Usually carbon, but not necessarily, more and more focused on governance-related matters. And it's been growing incredibly rapidly. So the portfolios with purpose, for example, which I just mentioned, about $16 billion, has increased about 60% year-over-year. And so I think that's important in the context of our overall AUM growth of roughly 10%. So just to give you a sense, when you look at what the private client group is interested in and what we -- what are some of our larger strategies, I would highlight our sustainable global thematic our sustainable U.S. thematic strategies are very big, our municipal, our muni impact strategy and our newly launched managed volatility green alpha. It's tiny, but it's gotten a lot of interesting press, and I think there's real momentum there. So I don't know if I answered your question fully, but I hope you can tell we're pretty excited that with a focus on fundamental research, we think we have an unusual perspective to bring to the table.

Operator

Your next response from Robert Lee.

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

So I guess maybe kind of similar to -- I'm just trying to get a sense of -- are you seeing any -- as you head into New Year, any kind of shifts in the RFP activity? I don't know, maybe more specifically, there's -- are you seeing more interest in value away from growth in equities? Just trying to get a sense of kind of any subtleties maybe in what the institution investor base may be focused on right now.

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

Rob, it's Seth. Look, let me just make a couple of comments there. Yes, we are seeing -- we're certainly seeing growth in ESG-focused searches. That's for sure, and I should have added that in my prior answer, but you reminded me of that. Active equities is like 40-odd percent of our pipeline from an earnings perspective. Certainly seeing more interest in value, and we've won some value business in the fourth quarter, which is very hard, which I think reflects our commitment to sticking to our knitting and being a deep value manager when a lot of people have abandoned that space. So yes, we do see some. But I should also tell you on the lower feed side, we see more interest in our customized retirement solutions as well. So I -- while certainly the fee base and the average fee rate has been much higher in our pipeline and in our underlying, but we are seeing some lower fee [up] as well. It doesn't change that significantly the mix yet, but we are seeing a lot of interest there.

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

Great. And just a quick follow-up for -- on the comp ratio. I just want to make sure I heard it right, but you suggest -- or use a targeting -- or targeting the guidance, was it 48.5% over the first half of the year? I may have missed that.

Ali Dibadj - *AllianceBernstein L.P. - Head of Finance & Strategy and Portfolio Manager*

Yes, Robert. So it's 48.5%, and we give it quarterly, so it's for Q1. But what we've learned is people often key off of that and think about the rest of the year from a comp ratio perspective. And we just want to make sure, given performance fees, for example, have become a much bigger piece of our business, that there may be some fluctuations up or down on that as well as fringe benefits, right? So something that's in our comp ratio is fringe benefits, and that's impacted by if somebody's going to the doctor or not, and during COVID times, maybe fewer people. And if that releases a little bit, maybe people go more to the doctor, and that will impact our fringe. So we just want to make sure that people understand that the directionality isn't always going to be down certainly in a year like this. The 48.5% is what we're guiding to for now, correct.

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

All right. Great. And there's also -- you usually have a 1Q seasonality as it relates to payroll costs and things like that.

Ali Dibadj - *AllianceBernstein L.P. - Head of Finance & Strategy and Portfolio Manager*

Correct. I mean we accrue at 48.5%.

Operator

(Operator Instructions) There are no further questions at this time. Mr. Griffin, I'll turn it back over to you.

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

Okay. Thank you, Natalia. Thank you, everybody, for participating in our conference call today. Please feel free to contact Investor Relations with any further questions, and we wish you a great day. Goodbye.