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AB.N - Q2 2024 AllianceBernstein Holding LP Earnings Call

EVENT DATE/TIME: JULY 26, 2024 / 2:00PM GMT

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PRESENTATION

Operator

Thank you for standing by, and welcome to the AllianceBernstein second 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, Head of Investor Relations for AB, Mr. Mark Griffin. Please go ahead.

Mark Griffin - *AllianceBernstein Holding LP - Head of IR*

Thank you, operator. Good morning, everyone, and welcome to our second quarter 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 for the quarter are Seth Bernstein, President and CEO; and Jackie Marks, CFO. Onur Erzan, Head of Global Client Group and Private Wealth, 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-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 - *AllianceBernstein Holding LP - President, Chief Executive Officer, Director*

Good morning and thank you for joining us today. In the second quarter, AB's diversified global offering continued to drive sustained organic growth, led by strength in both taxable and tax-exempt fixed income. We saw further market share gains in US retail, Japan equities, and APAC ex-Japan fixed income.

Our private markets business grew to \$64 billion with fundings driven by private credit and real estate equity, as well Equitable completed its initial \$10 billion commitment. Notably, our Private Wealth business had its strongest alternative raise ever. And importantly, investment performance improved in equities and remained healthy in fixed income.

As Jackie will detail, AB's adjusted operating margin was 30.8%, up 380 basis points year-on-year as we executed on our multiyear margin improvement plan. Taking a step back, we're benefiting from the progress made from our long-term strategy of building out distribution in US retail and investing in private wealth. While it is early days, we're enthusiastic about what we're seeing in our insurance vehicle and our start in China has been good despite what are challenging local markets.

Now let's get into the specifics, starting with a firm-wide overview on slide 4. Second quarter gross sales were \$31.9 billion, up \$9.5 billion or 42% from a year ago period. Firm-wide active net inflows were \$1.3 billion or 1% annualized organic growth. Quarter end assets under management of \$770 billion increased by 11% year-over-year and 1% from the end of the first quarter. And second quarter average assets under management were up 11% year-over-year and 2% sequentially.

Slide 5 shows our quarterly flow trend by channel. Firm-wide, second quarter net inflows were \$900 million. Strong retail gross sales of \$23.2 billion increased 41% year over year, driven by both active fixed income and equities. Net inflows were \$2.8 billion or 4% annualized organic as we continued to gain share in fixed income and equities, notably in the US.

Our institutional channel saw gross sales of \$3.3 billion, while net outflows were \$1.8 billion, as active equity outflows outweighed insurance-led fixed income growth. In private wealth, gross sales remained strong at \$5.4 billion with slight net outflows reflecting seasonal tax-related selling. Investment performance is shown on slide 6.

Starting with fixed income. The Bloomberg Global Aggregate Bond Index ended lower by [1.1%] in the second quarter as investment-grade corporate bond markets in the US and Europe delivered positive returns both absolute and relative over government bonds. High-yield markets yet again outperformed both investment-grade and governments. AB's fixed income performance remained healthy with 89% of assets outperforming over the one-year period, 68% over the three-year period and 60% over the five-year periods.

This performance translated to a 9% annualized organic growth across our fixed income asset base this quarter, with double-digit growth in institutional, taxable, and in municipals. We're encouraged by growing client interest in our systematic suite, which leverages our quantitative factor-based research for which we've now launched four retail vehicles including two Luxembourg-domiciled UCITS funds announced earlier this week, in addition to segregated mandates for institutional clients.

With \$6.4 trillion of cash sitting on the sidelines today, it stands to reason that bond flows should benefit handsomely as the Fed gets closer to lowering interest rates, which we expect later this year.

Turning to equities. The US equity markets rally again in the second quarter with the S&P 500 Index gaining 4.3%, primarily driven by larger technology stocks, as market breadth deteriorated during the quarter. Value underperformed growth while small caps lagged large caps. Importantly, our investment performance improved as our large retail funds outperformed including several foreign domiciled funds that we now show ranked against their Morningstar peer groups for all periods. 68%, 65% and 64% of our equity assets outperformed over the one-year, three-year and five-year periods, respectively.

While we continue to see outflows in equities in the quarter, recent outflows have slowed, and we are seeing increased opportunities with clients. Specifically, we see increased interest in value giving meaningful valuation spreads to growth, and we were encouraged by a \$200 million win in

the quarter for US large-cap value, for which relative performance is strong. We're also seeing momentum build for our new European global growth service across both institutional and retail channels.

Now, I will review our client channels beginning with retail on slide 7. Gross sales remained robust at \$23 billion, up 41% year-over-year. Net inflows of \$2.8 billion reflected our strong geographic and product breadth led by munis, high income and US large cap growth.

In taxable fixed income, we grew organically at a 7% annualized with our two large offshore high-income funds, both ranking first in their categories for net inflows and mortgage income ranking second in its category. We are pleased that mortgage income, a barbell strategy with a short duration profile that complements our income suite, crossed the \$1 billion mark this quarter, with strong rankings across a ten-year track record.

Munis posted net inflows of \$1.5 billion, a 17% annualized organic growth rate, positive 15 out the last 16 quarters. Notably, active equity sales were up over both periods with net inflows of \$400 million driven by US large cap growth. We continue to see strength in retail active equity July to date.

In the quarter, we launched two more active ETFs, and we converted another one last week. Our 15 ETFs, which are principally new services rather than existing services and new wrappers, now total \$4.6 billion, including our first ETF "YEAR", which now exceeds \$1 billion.

Turning to Institutional on slide 8, second quarter gross sales were \$3.3 billion, up \$1.8 billion from a year ago and in line sequentially. Net outflows of \$1.8 billion improved versus prior periods. Insurance-led fixed income growth was outweighed by active equity redemptions. Encouragingly, we saw \$3.2 billion of fundings from our pipeline this quarter, including over \$1 billion at AB CarVal. And Equitable completed its initial \$10 billion commitment to our private markets program with fundings in the quarter in AB CarVal's residential mortgage strategy and US cred.

The pipeline was \$9.8 billion at quarter end, down \$1.7 billion sequentially. Pipeline additions, also \$1.7 billion, were driven primarily by private placements, global plus fixed income and short duration wins.

Moving to private wealth on slide 9. Second quarter gross sales of \$5.4 billion were up 20% year-over-year and in-line sequentially driven by strong adviser productivity. Seasonal tax-related selling consistent with last year's second quarter turned in otherwise net inflowing quarter into \$100 million net outflow. Strategies with net inflows included real estate or proprietary direct indexing strategy ETFs and munis. Year-to-date, we remain on track for our fourth consecutive year of organic growth.

As previewed last quarter, we fielded a strong slate of alternative offerings, which drove a record alternatives raise of over \$1.3 billion. Real estate equity led with our largest, single close ever, with additional raises by AB CarVal and our private equity fund of funds.

On a year-to-date basis, alternatives raises are up 28% year-over-year, proof of the strong flywheel effect as our private wealth business catalyzes growth of our longer-dated private alternative strategies.

Now I'll turn it over to Jackie to discuss the financials and wrap up before taking questions. Jackie?

Jackie Marks - AllianceBernstein Holding LP - Chief Financial Officer

Thank you, Seth. I will start with the financials and then wrap up by summarizing our progress in the quarter across our strategic initiatives. As you know, this is our first quarter reporting results with Bernstein Research Services deconsolidated, reflecting the joint venture, which closed on April 1.

Our equity interest in the net income of the JV is now reflected in the investment gains and losses, revenue line, and GAAP earnings. As this business is no longer a core operation, any gains or losses are added back to adjusted earnings.

Let's start with the GAAP income statement on slide 10. Second quarter GAAP net revenues of \$1.0 billion increased 2% from the prior year period and were up by 12% on a like-for-like basis, if we were to exclude Bernstein Research Services in both periods. Revenues included a \$28 million

investment loss from our share of the JV as customers and operations transitioned to the new JV entities in its first quarter of operations. We anticipate improved results as the business scales.

GAAP operating income of \$199 million increased 6% year-over-year and operating margin of 19.0% increased by 60 basis points. GAAP EPU of \$0.99 in the quarter increased by 87% year-over-year, primarily driven by a non-operating \$134 million gain on the sale of Bernstein Research Services, a \$0.44 per EPU benefit to GAAP results.

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. These highlights are shown on slide 11, which I'll touch on as we walk through the P&L shown on slide 12.

Reported net revenues of \$826 million were flat versus the prior year period and increased 13% on a like-for-like basis. Second quarter adjusted operating income of \$254 million increased by 15% versus the prior year period, and operating margin of 30.8% increased by 380 basis points year-over-year.

Walking through the components of revenue, second quarter base fees increased by 9% versus the prior year period, driven by 11% higher average AUM. The second quarter fee rate of 39.4 basis points was up marginally from the first quarter, driven primarily by retail growth and funding of long-term alternatives.

The fee rate declined 2% year-over-year, driven predominantly by asset mix, including organic growth and lower fee rate, munis, and money markets. Second quarter performance fees of \$42 million increased by \$27 million from the prior year period, primarily due to higher fees from US select equity long, short, and private credit. We now see full year 2024 performance fees, up slightly from 2023 levels.

Moving to adjusted expenses. All-in, our total second quarter operating expenses of \$572 million declined by 5% year-over-year, reflecting the Bernstein Research Services deconsolidation. Second quarter total compensation and benefits expense was down 1% versus the prior year period, driven by a slightly lower compensation ratio of 49.0% of adjusted net revenues as compared with 49.5% in the prior year period.

Given continued strong equity market conditions, we plan to accrue at a 48.0% compensation ratio in the third quarter of 2024 and may adjust further throughout the year. As we guided, promotion and servicing costs decreased by 29% from the prior year period, reflecting the significant reduction of trade execution and clearance expenses from the Bernstein Research Services deconsolidation.

For calendar year 2024, we expect promotion and servicing expenses to decline by approximately 18% to 20% on a year-over-year basis, which embeds some market-related growth from retail mutual fund transfer fees.

G&A expenses declined by 10% in the second quarter versus the prior year period, slightly better than our prior guidance. On a like-for-like basis, G&A was down 1% year-over-year. 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. We're making good progress on our North American relocation strategy, and we anticipate pulling forward \$13 million of lease expense for the legacy New York building from the fourth quarter into the third quarter.

Accordingly, we expect third quarter G&A will decline by 1% to 2% from the prior year, while fourth quarter G&A will decline by approximately 20% versus the prior year. As such, we now expect the targeted incremental 100 to 150 basis points of year-over-year margin improvement from our relocation strategy will commence in the fourth quarter of 2024, which is one quarter earlier than planned.

Second quarter interest expense decreased by \$3 million from the prior year period. We paid down an incremental \$81 million of debt in the second quarter as net regulatory capital was freed up. That's in addition to the \$304 million debt reduction in the first quarter stemming from the JV equalization payment.

In the second quarter, adjusted operating earnings were \$55 million above GAAP operating earnings due to acquisition-related expenses, earnings from the JV, and interest expense. That said, GAAP EPU was \$0.28 above non-GAAP EPU, as the net gain on sale of Bernstein Research Services outweighed acquisition-related expenses.

The second quarter effective tax rate for ABLP was 6.0%, which was lower than expected, reflecting a favorable mix of earnings across AB tax filing group. Our guidance for ABLP's effective tax rate in 2024 is now a range of 6% to 7%, down from the prior range of 7% to 7.5%. This reflects our mix of foreign earnings, tax savings initiatives, and finalization of the Bernstein Research Services JV.

Now let's turn to slide 13 to summarize our progress against our key initiatives. As Seth highlighted, our diversified global offerings and client base, coupled with improved investment performance, continues to drive sustained organic growth. We delivered positive net flows for the second quarter and year-to-date periods, driven by our well-balanced, globally diversified retail channel and 9% organic growth in active fixed income, with municipals growing at 11%. We saw over \$3 billion in fundings from our institutional pipeline, including over \$1 billion funded at AB CarVal.

Secondly, we continue to develop, commercialize and scale our suite of services. We launched two additional active ETFs in the quarter, now standing at 15, with \$4.6 billion in AUM. Our private markets AUM increased to \$64 billion, up 5% year-over-year. We launched the AB CarVal interval fund in private wealth, expanding our alternative offerings while also deploying the NAV lending initiatives supported by Equitable.

Additionally, we announced the hire of Geoff Cornell as CIO of our insurance business, an important focal point for us going forward. We remain focused on executing on targeted operating margin expansion.

Our second quarter adjusted operating margin was 30.8%, up 380 basis points year-over-year reflecting the margin benefit from the Bernstein Research Services deconsolidation and favorable markets. Overall, we are well on our way to executing on our multi-year 350 to 500 basis point operating margin improvement target that we outlined for you last year.

With that, we are pleased to answer your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Bill Katz, TD Cowen.

Bill Katz - TD Cowen (Research) - Analyst

Great. Thank you very much. I also appreciate the streamlined supplement this morning on a very busy day. Seth, thanks for your comments again from a big picture down, so I expect fixed income longer duration asset demand pick up. I guess the question is -- hear mixed things from different companies, where do you think the money comes from? Is this from other longer-dated AUM? Does it come from the liquidity in the system? How do you see that playing out?

Seth Bernstein - AllianceBernstein Holding LP - President, Chief Executive Officer, Director

Thanks, Bill, for the question. And I'm going to start and Onur may want to pop in and add some comments. My first thought is, I think certainly, some of it comes out of the -- whatever, \$4.6 trillion -- or whatever the number of trillion of cash that's sitting on money market funds. I certainly think, particularly retail investors are getting more comfortable about the Fed; if they don't ease next week that they will be easing in September. But that I think it's \$6.5 trillion that's sitting on the sideline.

So I certainly think some of it's coming there, and we do see it. We see it in our muni SMA growth, which continues in the second quarter. I'd also say as pension defined benefit schemes here in the United States are now or near fully funded that will trigger both annuitization as well as de-risking, which I think will see some allocation. And we see continuing demand offshore.

So I think the offshore demand continues. I mean, we're obviously watching the Yen--although that's less of an issue for us than it was in the past. But I think that is a different market for it as well. Onur, I don't know if you have anything you want to add.

Onur Erzan - *AllianceBernstein Holding LP - Head of Private Wealth, Head of Institutions and Retail of General Partner*

No, I think that was a good summary, Seth. I can come back to any other details as the questions come in.

Bill Katz - *TD Cowen (Research) - Analyst*

Okay. Very good. And as a follow-up, just maybe to Jackie, a launching point for the way you ended the conversation. Just in terms of the margin, so it sounds like you're moving a little bit quicker, which is great to see. And I think when you guys exited the BRS platform, there was some embedded overhead I think sitting inside that.

I was wondering, as we look ahead, since you're now already running at, I think, towards where you're trying to get yourself to at the Investor Day just recently, how should we be thinking about like the end state for margins here, just given the core business is running faster, your relocations are coming in sooner and you still have, I think an opportunity to maybe take out some savings in the remaining overhead at BRS? Thanks.

Jackie Marks - *AllianceBernstein Holding LP - Chief Financial Officer*

Thanks, Bill. We are still very committed to the guidance that we gave. I remind you that that guidance did not include market performance. So that is specific to the relocation strategy, which we talked about and specific to the improved performance from the deconsolidation of Bernstein Research Services.

I will say, specific to that question that as evidenced by the 546 employees that we transferred to the new JV, the majority of resources with Bernstein Research Services have already transferred. We had some further work being done under transitional services agreements that we continue to provide key services to the JV, which will allow us time to rationalize those costs as the services roll off in the future.

Bill Katz - *TD Cowen (Research) - Analyst*

Great. Thank you.

Operator

Craig Siegenthaler, Bank of America.

Craig Siegenthaler - *BofA Global Research (US) - Analyst*

Good morning, Seth. My question is on improving bond flows, which I think I heard you say you expect to improve handsomely if and when the Fed starts cutting. We agree, and it feels like we've been waiting on this for a while, so it's nice to see that you're winning flows in both the taxable and muni bond businesses. But we actually have to forecast this out. So I would appreciate any perspective on the size and timing as we think of a period of elevated bond inflows?

Seth Bernstein - *AllianceBernstein Holding LP - President, Chief Executive Officer, Director*

Actually, I think I'll pass it to Onur. I mean, it's more a timing issue. Obviously, it's hard to predict institutional and we're not very good at it. Because every manager -- I'm sorry, every sponsor has their own time frame and particular issues.

But Onur, what would you add?

Onur Erzan - *AllianceBernstein Holding LP - Head of Private Wealth, Head of Institutions and Retail of General Partner*

Yeah. I think one, obviously, particularly with some of the liability driven investors like insurance companies, we continue to see strong demand with the growth of the annuity franchises, and we are a beneficiary of that. That's why we had strong institutional fixed income net flows. So we expect that trend to continue. In terms of the more retail segments, as Seth mentioned earlier in the conversation, definitely, there is some expectation for money to come out of money market funds and flow more into higher yielding taxable and tax-exempt strategies.

In our case, we play both sides of that, right? We have a leading market share gaining Muni franchise, so we expect that trend to continue. Both a combination of client demand, given historic lows of fixed income allocation coming from a no yield environment. So we'll benefit from that.

And then internationally, in this environment, typically our high yield and barbell strategies, both global and US, continue to do well. So all in all, again, it's hard to be precise with the exact quarter or percent. But we feel confident about continued fixed income strength for our franchise across institutional retail as well as US and offshore.

Craig Siegenthaler - *BofA Global Research (US) - Analyst*

Thank you, Onur. Just my follow-up, it's on ultra-high net worth. So Bernstein is recently carved out ultra-high net worth, an effort inside of the private client channel. And I think this has been a bigger focus for the firm. But several wires have recently adjusted their cash sweep rates, mainly with the higher tiers, so ultra-high net worth.

And I'm curious because I've never focused on this with you guys before, but what are the cash sweep options that you offer inside of Bernstein, especially with higher tiers? And have you been thinking about adjusting your cash sweep strategy, just given recent move at the wires?

Onur Erzan - *AllianceBernstein Holding LP - Head of Private Wealth, Head of Institutions and Retail of General Partner*

Thanks for that question. So first of all, we continue to experience high growth with our ultra-high net worth and family office segments. So given our strategic focus, we are happy with the relative growth of that segment as opposed to lower value segments. When it comes to cash, one important distinction for our platform is more than 90% of our revenue comes from advisory and service fees. So as a result, it's a very high-quality recurring fee base and it's not very sensitive to spread income, right.

That's, I think, something that makes our franchise very predictable. On the cash rate, we always want to be extremely competitive, taking advantage of our in-house custody and clearing, which is part of our client proposition. We are able to offer very competitive rates to our clients.

Today, our rates are between 4.5% to 5%, depending on the type of the clients. And that has been the case for a long time. So we offer very competitive cash rates to our clients. So we are not nervous about some of the recent developments.

And then furthermore, in terms of our cash options, we have a very strong and net flowing money market franchise in our Bernstein Private Wealth business in addition to our strong money market funds, we offer also third-party options. All in all, a, we are less dependent on interest income; b, that income has been very accretive; and then, c, we are not worried about any competitive dynamics given we have very high rates on our sweep.

Craig Siegenthaler - *BofA Global Research (US) - Analyst*

Thank you. And those rates, 4.5%, 5% are pretty good. Thanks for taking my question, guys.

Operator

Dan Fannon, Jefferies.

Dan Fannon - Jefferies LLC - Analyst

Thanks. Good morning. Seth, wanted to follow-up on your comments on equities, and obviously the industry is still a bit challenged. You talked about some wins on the value and pick-up in demand. But the growth side, looking at performance, and you're still seeing some outflows there. So just wanted to get a little bit more color on the overall complex as you think about the equities and prospectively, the outlook in terms of where you see potential momentum and/or headwinds.

Seth Bernstein - AllianceBernstein Holding LP - President, Chief Executive Officer, Director

Okay, Dan, thanks for the question. Couple of thoughts. First, we have seen continuing strength in active equities in retail. Large cap growth is a component of that, but it's not unique. It's the largest component of that, but it's not unique.

I'd also say that for the first time in the seven years I've been here, we are beginning to see more pronounced and wider spread interest in value in US value, which I think is exciting. Hard to gauge the potential of that, but I think it can be quite significant. But it's early days, and I think we're going to need to see value sustain appealing performance. Where we struggled and it's more concentrated, of course, on the institutional side, are two strategies in particular, where we've had very strong historical performance, our concentrated growth strategy and our global core strategy.

And I'd say, while the last few weeks -- last week or so have helped, we had a big hole to dig out of, and so we were seeing higher redemptions than we would hope in those strategies. Now they have tapered a bit. And quarter-over-quarter, year-over-year institutional, the redemption -- the amount of the redemptions has fallen. But that, of course, is performance-driven. You know better than I, this has been very much a concentrated market. And if you have a concentrated strategy and you weren't long the key Mag 5 or Mag 7 -- however you wanted to define it, that was a pretty treacherous marketplace to be trading in.

We are very confident in the quality of the team. They have a long set of relationships and strong consultant partnerships, but it's been a problem. And we recognize it and we continue to have exposure there. But I think we have it in hand, and I'm encouraged by the overall improvement of our equity investment performance to see it.

But I continue to be more optimistic on the retail side than I am on the institutional side for equities, but we do see consultant demand. I wouldn't say it's coming over the transom, but it's certainly stronger than it's been in a while.

Onur, do you have anything you want to add to that?

Onur Erzan - AllianceBernstein Holding LP - Head of Private Wealth, Head of Institutions and Retail of General Partner

Yeah. I mean on the redemptions, this was the lowest level of institutional redemptions we had over the last four quarters. So definitely pleased with the trend line there. I mean it was still an outflow quarter for us in institutional, but it's good to see that the redemptions are much better than the previous three quarters.

Second, I think, obviously, we are an active shop and we competed well in that with retail active equities turning positive in the second quarter. The other aspect of it, however, is the tax managed strategies. We have been an innovator in tax management in fixed income, and we have been carrying that into equities.

Our tax managed equity service called [PaTH] just hit the \$5 billion mark with very high momentum. So I think the way we play interactive is sometimes active tax management and that will be a growing part of our franchise.

So I know it's smaller as a percentage of total, but pleased with the momentum there, and we see synergies between our tax management capabilities in fixed income and equities and bringing them in the SMA strategies for a broad range of our clients.

Dan Fannon - *Jefferies LLC - Analyst*

Great. That's helpful. And I guess, sticking still with some smaller contribution, but just the ETF strategy as a whole. I was curious, as we think about, I think, it was a \$4.6 billion, 15 or 16 products, as you prospectively look at it, are these -- are you thinking to complementary strategies or I think to date they've been new but you're seeing several of your peers get more active in this market who historically weren't in the ETF market.

And so just thinking -- curious about your strategy and how you're thinking about it longer term?

Onur Erzan - *AllianceBernstein Holding LP - Head of Private Wealth, Head of Institutions and Retail of General Partner*

Sure. We are very pleased with the build-out and the acceleration of the business. If you recall, our first ETF was back in September 2022. So we have been in the market for less than two years. And now we have 15 products with \$4.6 billion. So that's very, I think, in my opinion, a good start.

Yeah, in terms of the product strategy, we have basically two existing plays, and then we're going to add a third play to our strategy. First play is obviously introduce new products in categories where we can enter. We have done that with a short duration money market competitive products like here, our first ETF, which is now above \$1 billion. So that was go to white space using existing capability.

Number two, make conversions where conversions add access and opens new distribution channels. We have done that with the four conversions we had, including the recent ones on the short-duration fixed income.

And since we converted the US high yield, which was the first one we converted, although it's a small base, we have seen much more flows than we had when it was a mutual fund, right? Because in these categories, getting shelf space in a mutual fund is much harder, but now you launch an ETF, you open the strategy to the broader retail world through online channels as well. So conversions has been the second part of the strategy.

The third part of our strategy is now look at different markets. Obviously, we have strong distribution in many parts of the world, particularly Asia, and we are really looking at the developments with capital markets in those markets, so as they -- as the regulatory framework evolves, to go from only passive ETF to active, we will selectively enter some of those markets over time as well. So those are a few important areas to highlight.

Dan Fannon - *Jefferies LLC - Analyst*

Great, thank you.

Operator

John Dunn, Evercore ISI.

John Dunn - *Evercore ISI Institutional Equities - Analyst*

Thank you. Can you frame for us how past rate cutting cycles have played out for your high yield funds distributed in Asia?

Seth Bernstein - *AllianceBernstein Holding LP - President, Chief Executive Officer, Director*

I'm sorry, can you just repeat the question?

Onur Erzan - AllianceBernstein Holding LP - Head of Private Wealth, Head of Institutions and Retail of General Partner

Yeah, I can get started. I think the question was, how did our Asia fixed income franchise acted when we had previous rate reduction cycles?

Seth Bernstein - AllianceBernstein Holding LP - President, Chief Executive Officer, Director

Oh sorry.

John Dunn - Evercore ISI Institutional Equities - Analyst

Exactly, yeah. Thank you.

Onur Erzan - AllianceBernstein Holding LP - Head of Private Wealth, Head of Institutions and Retail of General Partner

Look, I think at the end of the day, it depends on the size of the reduction and how fast that happens as well. So I think it's hard to generalize. In the current environment, given our barbell strategies as well as our high-yield strategies, we believe even with rate cuts, our relative performance and demand should remain strong.

And obviously, there are a lot of variables there, including the credit spreads, et cetera, which has been low. But just based on the rate environment, if there's no recession, et cetera, we don't expect any major issues in terms of our relative performance or the market demand based on the type of the strategies we run and the history, but Seth, please comment.

Seth Bernstein - AllianceBernstein Holding LP - President, Chief Executive Officer, Director

The only thing I would add, John -- I'm sorry I didn't hear exactly what the question was, is that it off -- the other factor I would point out is what the local alternatives are. So we've had periods where we've been in a declining rate environment, but the local Chinese equity market was quite strong. So the enthusiasm for US yield product might have been less than it would otherwise be.

That's not an issue now, although that could turn around, certainly a low valuation base today. But local alternatives also matter in the determination of that.

John Dunn - Evercore ISI Institutional Equities - Analyst

Got it. And then Japan seems to be an increasingly attractive area of interest. You guys sell a bunch of US growth equity funds there. Are there any other products you're marketing? And how much of a focus is Japan?

Seth Bernstein - AllianceBernstein Holding LP - President, Chief Executive Officer, Director

Japan remains a historical focus for us and very strong, not just on the retail side, but on the institutional side as well. So we've seen success in our systematic fixed income, which we're excited by. We continue to have meaningful relationships there institutionally and are in discussions with our clients there on other strategies. But nothing to report. In retail, global high yield continues to be an important strategy for us in the local market. And so AIP to a lesser degree, but there's continuing demand there for those products.

Onur Erzan - AllianceBernstein Holding LP - Head of Private Wealth, Head of Institutions and Retail of General Partner

On Japan, John, two things I would add. One, we have an ITM range. ITMs are the local wrappers, like the large-cap growth product that is market-leading that you mentioned. So that ITM range is important. There has been new regulation pension expansion in Japan called NISA accounts. NISA accounts actually led to a pretty strong sales expansion in the Japanese market. So given our strong distribution network and strong reputation as an active equity manager, that's a favorable trend for us.

And on institutional, actually, we have seen strong interest in our new systematic fixed income capabilities in Japan. Actually, there has been significant fundings for systematic fixed income from leading Japanese investors, both pension and insurance clients.

So all in all, I think we have multiple ways to play Japan. But there's always a word of caution. The word of caution is if Bank of Japan basically hikes rates and the Japanese yen appreciates, obviously, there could be some uncertainty there, which is hard to predict.

John Dunn - Evercore ISI Institutional Equities - Analyst

Got it. Thank you.

Operator

Alex Blostein, Goldman Sachs.

Alex Blostein - Goldman Sachs & Company, Inc. - Analyst

Hi, everybody. Good morning. Thank you for the question. I wanted to start with a question around the institutional business and a couple of things there. I guess, one, it's nice to see that you guys are progressing with the -- on to the next \$10 billion from your insurance partnership. Can you talk a little bit about the pace of deployment and the strategies and perhaps the fee rates that that's likely to earn? And I guess when you zoom out broadly, can you help us frame the fee rate on the additional pipeline as you disclosed in your deck? Thanks.

Seth Bernstein - AllianceBernstein Holding LP - President, Chief Executive Officer, Director

With respect to institutional, yes, the first \$10 billion from Equitable has been funded. They continue to be working with us, whether it's in our PCI business or in AB CarVal and in US cred. So continued participation there.

Onur, perhaps you want to give a bit more color?

Onur Erzan - AllianceBernstein Holding LP - Head of Private Wealth, Head of Institutions and Retail of General Partner

Yeah. Sure. In terms of our pipeline, our pipeline remains very strong despite the strong funding this quarter, over \$3 billion funded as you know. Our pipeline is still around \$10 billion - near \$10 billion in the institutional. Of that, 82% of the fees are attributed to alternatives. And the effective fee rate remains significantly higher than our current run rate. So it's around 49 basis points right now in the blended rate for the pipeline.

Alex Blostein - Goldman Sachs & Company, Inc. - Analyst

Great. That's helpful. Thank you. And then just a little bit bigger picture. You guys made significant progress in positioning AllianceBernstein to be a player in the private credit and private fixed income space broadly. Do you find that you have all the pieces necessary to sort of continue to serve that channel, especially when it comes to insurance or are there still pockets that you think you might need to pursue inorganically?

Seth Bernstein - *AllianceBernstein Holding LP - President, Chief Executive Officer, Director*

We think we have the vast majority of the tools we need. There are a number of asset-based strategies that CarVal is picking up and running with as in our PCI business. I think also, there are some areas that (technical difficulty) to our asset, our liability manager clients insurance, infrastructure is one that we continue to look at and debate. So I would say we're mostly there.

And there's nothing at the moment that were, I mean, those of them focusing, we're just continuing to work CarVal and PCI and Cred to build out their current platform and (technical difficulty) marketing support they need.

Onur Erzan - *AllianceBernstein Holding LP - Head of Private Wealth, Head of Institutions and Retail of General Partner*

Yes. So we added -- Onur, jumping in here as well. On the insurance-specific investment-grade private credit. We've made very strong progress on IG services for insurance clients. As you know, Equitable came into the NAV financing with a significant commitment. We funded more than \$750 million in US residential home loans that obviously is a heavy lift in terms of the infrastructure to create that. We can offer that to third-party clients as well on both cases.

As Seth mentioned, we are making a lot of great progress on asset-based financing and specialty finance, IG, including our relationships with leading banks, and then we have the traditional real estate debt, private placements. So as we think about the typical insurance general account appetite for private credit IG, I think we check most of the boxes, if not all of the boxes. So we believe our platform is pretty complete.

Alex Blostein - *Goldman Sachs & Company, Inc. - Analyst*

That's great. Thank you, all.

Operator

Bill Katz, TD Cowen.

Bill Katz - *TD Cowen (Research) - Analyst*

Okay. Thanks very much. Actually, it's just a couple of housekeeping items. But just coming back to the private wealth platform. Could we dig a little bit further on to the cash allocation? What percentage of the portfolio sits in cash today? What's the split between what's in suite versus in money market? And you mentioned that your yield is rather high, and that is, I think RayJay and Stiefel around 2% to 3% and LPLA is down less than 1%.

Is there anything other than competitive dynamics here on the tiered pricing at play? And I have other follow-ups after that. Thank you.

Onur Erzan - *AllianceBernstein Holding LP - Head of Private Wealth, Head of Institutions and Retail of General Partner*

Yes. Thanks, Onur, again. As I mentioned, the great majority of our fees over 90% comes from the advisory and service fees. So the cash sweep economics, although it's positive, it's not a huge driver of our overall revenue picture. In terms of the cash options, the cash allocation tends to be relatively small. So typically, it would be more the transactional cash that stays in the accounts, a good chunk of that goes to money market funds, either our own proprietary money market fund or a third-party money market firm.

Cash balances are typically in the 1% to 2% of our assets when it comes to cash sweep, and the money market assets would be in the low-to mid-single digits. So that's, I think, how I would add those up. Remember, sometimes, depending on the fee relationship, et cetera, some assets might not flow through the advisory assets and flows, et cetera.

So that's why it's not a perfect match, but that's how it works.

Bill Katz - TD Cowen (Research) - Analyst

Okay. And I'll follow up offline on the competitive dynamic. Seth, you teased us a little bit on some of the July trends to date. I was wondering if you could zoom out a little bit and just talk maybe about the big picture of how the overall flow picture is looking. And then separately, you also called out that taxes were a big driver to the private wealth side. I wonder if you could frame out how big the tax impact was.

And then one last clarification point. I'm sorry I asked so many questions, but you mentioned that you have about \$10 billion left in the institutional pipeline and \$10 billion with equitable. Are those separate and apart? I just want to make sure I'm not double counting the opportunity. Thank you.

Seth Bernstein - AllianceBernstein Holding LP - President, Chief Executive Officer, Director

So in reverse order, yes, they are separate, the institutional pipeline and equitable has, except in the situation where they already mandated us on a particular strategy and it's not an operation. But I don't think that's a particularly consequential number, Bill, in the scheme of things. So for example, in the \$500 million NAV mandate, I think first that would have shown up, I think, once it was mandated. But Mark should clarify that in terms of -- But I don't think there's an overlap between the two.

But to just keep going on the second part of the question -- or the first part of the question, with regard to trends, seeing pretty strong retail trends and that's continued in institutional, it remains mixed, I think is the way I'd put it. And with regard to taxes and private wealth, I think that was the second question.

Onur or Jackie, do you want to take that? Because I didn't quite understand it.

Onur Erzan - AllianceBernstein Holding LP - Head of Private Wealth, Head of Institutions and Retail of General Partner

On the tax question. Sorry, can you clarify the tax question? Bill, I didn't fully understand the question.

Bill Katz - TD Cowen (Research) - Analyst

Yeah, I'm sorry to drag this on a particularly busy day. Just you had mentioned that the second quarter in the private wealth side was impacted by seasonal tax related redemption (multiple speakers) can you just quantified the sizing of that? Thank you.

Onur Erzan - AllianceBernstein Holding LP - Head of Private Wealth, Head of Institutions and Retail of General Partner

Yeah, absolutely. Yeah. So apologies. So Bill, on that one, so it was very similar to the second quarter of 2023. So we had less than \$100 million of outflows. There's a seasonal effect for sure. If you look at what gives me confidence is our sales has been strong and up more than 20% year-over-year. So that shows you the sales momentum. It was our record private alts capital raise for the channel all-time high.

And remember, not all of those fund raises or capital raises flows through net flows. We wait until funds to be deployed or start earning fees until they get counted at net flows. So that is a positive.

And then third, if you look at the productivity of our advisors, it remains strong. So all in all, there wasn't anything materially different about tax outflows than last year. And if you think about the sales momentum and quality of sales pipeline, we feel good about the outlook.

That said, high rates still keep a bunch of clients on the sidelines. And with the election coming with a relatively full market value on equities, people are not super motivated to put more money into action. So I think we're going to see a little bit of a macro environment that will make people sit on the sidelines, if you will.

Bill Katz - TD Cowen (Research) - Analyst

Thanks for your patience and answers. Thank you so much.

Operator

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

Mark Griffin - AllianceBernstein Holding LP - Head of IR

Okay. Thanks, everyone, for joining our conference call. We're happy to answer any additional follow ups you can contact Investor relations. Have a great day.

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