Client Id: 77

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

AB - Q4 2017 AllianceBernstein Holding LP Earnings Call

EVENT DATE/TIME: FEBRUARY 13, 2018 / 1:00PM GMT

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Andrea Prochniak *AllianceBernstein Holding L.P. - SVP, Head of IR & Corporate Communications*

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

John Weisenseel *AllianceBernstein Holding L.P. - SVP & CFO*

Jim Gingrich *AllianceBernstein Holding L.P. - COO*

CONFERENCE CALL PARTICIPANTS

Robert Lee *Keefe, Bruyette & Woods - Analyst*

Alex Blostein *Goldman Sachs - Analyst*

Surinder Thind *Jefferies LLC - Analyst*

Bill Katz *Citigroup - Analyst*

Jeff Ambrosie *BofA Merrill Lynch - Analyst*

PRESENTATION

Operator

Thank you for standing by and welcome to the AllianceBernstein fourth-quarter 2017 earnings review. (Operator Instructions). As a reminder, this conference is being recorded and will be available for replay for one week. I would now like to turn the conference over to the host for this call, the Director of Investor Relations for AB, Ms. Andrea Prochniak. You may begin.

Andrea Prochniak - *AllianceBernstein Holding L.P. - SVP, Head of IR & Corporate Communications*

Thank you, Beth. Good morning, everyone, and welcome to our fourth-quarter 2017 earnings review. This conference call is being webcast and accompanied by a slide presentation that is posted in the Investor Relations section of our website, www.alliancebernstein.com. Seth Bernstein, our President and CEO; John Weisenseel, our CFO; and Jim Gingrich, our COO, will present our results and take questions after our prepared remarks.

Some of the information we 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 1 of our presentation. You can also find our Safe Harbor language in the MD&A of our 2017 Form 10-K which we filed this morning.

Under regulation FD management may only address questions of a material nature from the investment community in a public forum. So please ask all such questions during the call. We are also live tweeting today's earnings call. You can follow us on Twitter using our handle @AB_insights. Now I will turn it over to Seth.

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

Thanks, Andrea. Good morning. I'm delighted to report that 2017 was an exceptional year for AllianceBernstein reflecting the steady execution of our long-term growth strategy. First, alpha generation for our clients was superb across asset classes and vehicles. We ended the year with 90% or more of our AUM in both fixed income and equities performing above benchmark or peer median over five years. We also have strong track records in our multi-asset and alternatives services.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

Second, we experienced stellar organic growth across the platform. Active net flows of $19.1 billion in 2017 for a 4.5% organic growth rate. And our Firmwide average fee rate increased 2.7% as the mix of our overall portfolio improved. The breadth of our growth was equally impressive. Net inflows were positive across all channels and active services and in nearly every geography.

Third, we continue to manage our cost structure to ensure that the robust growth we are generating translates into better earnings for our unitholders. And 2017's adjusted EPU of $2.30 was up 22% versus 2016 on 10% revenue growth due to an incremental margin above 50%. With that let's turn to the details of our 2017 results.

Slide 3 provides a Firmwide overview of our fourth quarter and year. Fourth-quarter gross sales of $19.3 billion were flat year on year. Annual gross sales of $78.7 billion were up nearly 8%. Total quarterly net flows of $4.2 billion compared with slight net outflows on last year's fourth quarter with net inflows into active strategies of $5.5 billion partially offset by passive outflows of $1.3 billion.

For the year our Firmwide net flows were $13.2 billion, the $19.1 billion in active net flows I mentioned, partially offset by $5.9 billion in passive net outflows. With these strong flows and $61.1 billion worth of market appreciation, average and yearend assets under management were up 8% and 15% respectively in 2017.

Slide 4 shows a quarterly view of flow trends and shows our strong momentum. Total firm quarterly gross sales averaged $19.7 billion in 2017 and, after slight first-quarter outflows, quarterly net inflows exceeded $4 billion for the rest of the year. Total flows into our active strategies were positive in every quarter.

In Retail our quarterly gross sales averaged $13.5 billion in 2017, up from $10.3 billion in 2016. Net flows were positive in every quarter and in fact for 11 out of 12 months in 2017 driven largely by strong momentum in Asia ex-Japan fixed income.

In Institutional redemption to net flows improved steadily and we ended the year over our most attractive pipeline in some time. I will speak to this in a moment. And in Private Wealth, quarterly gross sales in net flows were quite consistent.

This morning we also announced that January ending assets under management of $569 billion, up 2.7% due to market appreciation and net inflows into Private Wealth, Retail and Institutional. January included three large flows in our lower feed customized retirement strategies, or CRS, space: two fundings totaling $9.6 billion and a $7.2 billion redemption.

So we continued to attract net new assets during the month, though net flows did flow meaningfully in both Retail and Institutional. And certainly this month's volatility has affected more recent flows.

Slide 5 shows our annual flow view. Firmwide gross sales of $78.7 billion were our highest since 2013 and net flows were our highest since 2007. I think we may be the only public traditional asset manager to attract active equity net flows for the year. Ours were $880 million.

In Retail gross sales of $53.8 billion and net flows of $8.9 billion were in each case our highest since 2012. Strength in Asia ex-Japan was the largest driver, but the US and Latin America contributed as well.

In Institutional we definitely felt the industry-wide decline in sales in 2017. Our gross sales were down 38% from 2016. But with redemptions down by nearly two-thirds we returned to net flow positive territory with $3.6 billion.

Private Wealth gross sales and net flows were our highest in more than a decade. Gross sales of $11.5 billion were up for the fifth straight year and net flows nearly doubled from 2016. Stellar investment performance across a diverse array of offerings continue to drive our momentum as these next few slides demonstrate.

Slide 6 shows a five quarter trend for our percentage of active fixed income and equity assets in outperforming services. For both fixed income and equities the share of outperforming assets at the end of 2017 increased year on year for every time period. On the top half you'll see consistency of our fixed income performance and on the bottom our steady and, in some cases, dramatic rise in equities.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Slide 7 and 8 reinforce the diversity and breadth of our outperforming services. Beginning with fixed income on slide 7, every eligible Retail fund on this slide ranks in the top two quartiles for the three- and five-year periods. All but two of them do for the one year as well. Seven ranked top quartile across all qualifying time periods.

On slide 8, of the 15 equity funds shown two of them, US Thematic and European Equity in Luxembourg, ranked top decile for the one-, three- and five-year periods. Another four ranked top quartile for these three time periods.

Multi-asset and alternative strategies aren't on this slide but we've had some key performance milestones there as well. Our All Market Income US mutual fund received a five star rating from Morningstar on its third anniversary in the fourth quarter. And our Multi-Manager target date fund series hit three years with top quartile rankings and four and five-star ratings for 10 out of the 11 vintages, mostly five-star in fact.

In alternative strategies such as [Aria] financial services opportunities, private credit, secured [highest] assets, energy opportunities and commercial real estate debt delivered strong risk-adjusted returns. The breadth of our investment performance today is the best we've seen in years if not ever.

Now I will discuss our client channels beginning with Retail on slide 9. Retail gross sales increased in every region in 2017 and net flows were positive in every quarter totaling $8.9 billion for the year. As I said earlier, this was our best Retail year since our 2012 peak. Yet our business is much more balance today than it was then. That is due to the years of work we've done to make our Retail business more diverse and relevant as clients' needs have evolved.

From a regional perspective US Retail increased to 29% of total gross sales in 2017 from 19% in 2012 while Latin America more than doubled to 7% from 3%. Meanwhile our share of Asia ex-Japan gross sales declined from 54% to 52%. As for the mix, 2017 equity multi-asset gross sales were 60% higher than in 2012, while net flows of $3.2 billion compared with just $200 million back then.

And as you can see from the top left chart, of the 23 AB Retail funds of net inflows of $100 million or more in 2017, nearly half were equity and multi-asset. This diversification is reducing our dependence on Asia ex-Japan Retail fixed income markets, whereas the bottom left chart shows the tide can turn quickly.

After three strong quarters gross sales plunged in the fourth quarter. On a sequential basis industry-wide global high-yield bond sales -- fund sales in the region fell 40% and US dollar denominated bond fund sales fell 29%. These are the areas where our flagship AB global high-yield and American income Luxembourg funds compete. And we did see a steady sales slowdown in these products in the last three months of 2017. That's a big reason why we are happy to be hitting important performance in asset raising milestones in multi-asset services in the region.

We are also excited about our new US FlexFee Fund performance fee-based funds. We have begun to set them up at major custodians and we are in advanced talks with our broker dealer partners. We expect to announce availability soon. As I've said before, it will take years to get to critical mass with these funds, but we ultimately have the chance to set a new industry standard for active funds that dramatically improves our competitiveness of low fee passing.

Let's move on to Institutional on slide 10. For years now our strategy has been to complement our strong base in fixed income with new capabilities in active equities and alternatives. Our goal has been to better serve clients and grow our revenues in fee realization rates in a marketplace that is under significant fee pressure. In both our current business and pipeline we've made considerable progress.

Starting with our current business, even with gross sales down 38% up to $13.4 billion in 2017, our fee rate on those sales was up 32%, our highest in seven years. Growth in equity gross sales was a big driver; at $3.2 billion they were also our highest in seven years.

What's more we are winning more new business in higher fee asset classes. Of our fourth-quarter total pipeline additions of $3.8 billion, $1.8 billion came from equities and $1.2 billion from alternatives. Together these two asset classes represented 88% of our estimated pipeline revenue at year end, nearly double their share at the end of 2016.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

The right side of the slide shows notable wins we've had in the fourth quarter, a diverse mix of stalwarts and newer equity and alternative offerings. The top left chart shows how steadily our estimated pipeline fee base has grown, even as we have added billions in lower fee CRS assets. That's a testament to the profitability of the new active business we are winning. In fact, the average fee rate on the $7 billion active pipeline at quarter-end is more than three times the rate of our current Institutional business.

Finally, the bottom left chart is a snapshot of our active pipeline mix by both service and region. Equities and alternatives are 85% of the total pipeline assets with new mandates split fairly evenly between North America, EMEA and Asia-Pacific regions. Five years ago these pies were dominated by lower fee fixed income and CRS. This positive mix shift I believe positions us well going forward.

Now I will talk about Private Wealth management on slide 11. Here as well our 2017 results clearly reflect our momentum. Private Wealth assets under management of $92 billion at year end were our highest since 2007. Both gross sales and advisor productivity rose for the fifth straight year and net flows were positive every quarter totaling $700 million in 2017.

As you can see from the chart at the top left, gross sales have grown at a 22% compound annual rate since 2012 and advisor productivity by 13%. What's more, the number of Bernstein advisors with $100 million or more in annual production has nearly tripled since then. Our success with targeted services has been a major growth driver.

The suite of differentiated offerings we've introduced for our most affluent and sophisticated clients has been very well received from the beginning, and their popularity has only grown as we've built strong track records.

The chart at the bottom left shows how total deployed and committed assets grew at a 71% compound annual rate between 2012 and 2017 to nearly $7 billion. 2017 was our best year yet. Total commitments of $2.7 billion were more than twice our 2016 commitments of $1.1 billion. And our percentage of qualified clients who own at least one targeted service doubled from 30% to 60%.

We also remain focused on improving the overall Bernstein client experience. To that end we just spent months partnering with a select group of our most forward-looking clients to create and launch our first ever mobile app. Early take up has been strong and feedback has been quite positive.

I'll finish our business discussion with the sell side on slide 12. 2017 was a challenging year for Bernstein and for all Institutional equity brokers. Though our fourth-quarter revenue rose by 10% sequentially, they fell 6% year on year. Full-year revenues were down 6% as client activity remained subdued. With US market volatility at an all-time low in 2017 volumes hit multi-year lows.

Look at the bottom left chart. Average quarterly volume in 2017 was the lowest since 2014 and nearly 30% lower than a decade ago. Since our US business is still our largest, we certainly are feeling that pain (technical difficulty) aspects of the market, but we can control how we execute our long-term growth strategy and maintain our edge in research and trading and keep gaining share.

In that respect 2017 was a solid year. We again earned high rankings in various independent global research surveys. We invested to position our European trading operation well in a post MiFID 2 world and to pursue setting up a new broker dealer in Dublin ahead of Brexit. And we continue to expand in Asia where we grew revenues by 15% in 2017.

I will finish with a few words on MiFID 2. It's been a smooth operating transition and we are making good progress with clients and price negotiations. Trading volumes have been resilient so far as well. Most important, this process confirmed our belief that clients hold our research in high regard and want to keep Bernstein among top providers.

To wrap up on slide 13, I can't think of a better time to have joined the Firm. Our performance this past year demonstrates that active management can remain relevant to clients and retains a critical place in their portfolio. And if this recent volatility indicates that we are in fact entering an era of lower churns, active management will become more important than ever.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

After years of hard work on the part of our remarkable team here at AllianceBernstein, we are well prepared for whatever the markets have in store for us. Our client offering is broad and diverse across asset classes, client channels and geographies and our investment performance is spectacular across the board.

We are having our greatest success in penetrating the highest fee and highest growth segments of the market. And we keep making steady progress in our goal to expand our operating margin through strict expense discipline. I am thrilled to be on this journey with AB and excited about our future prospects. Now I will turn it over to John for a discussion of our financial results.

John Weisenseel - *AllianceBernstein Holding L.P. - SVP & CFO*

Thank you, Seth. Let's start with the GAAP income statement on slide 15. Fourth-quarter GAAP net revenues of $919 million increased 17% from the prior year period. Operating income of $283 million increased 27% and the 29.9% operating margin increased by 250 basis points. GAAP EPU of $0.84 compares to $0.77 in the fourth quarter of 2016.

As always I'll focus my remarks from here on our adjusted results which removes the effects of certain items that are not considered part of our core operating business. We base our distribution to unitholders upon our adjusted results which we provide in addition to and not as substitutes for our GAAP results. Our standard GAAP reporting and a reconciliation of GAAP to adjusted results are in our presentation's appendix, press release and 10-K.

Our adjusted financial highlights are included on slide 16. Fourth-quarter revenues of $770 million, operating income of $272 million, and our margin of 35.3% all increased year on year. We earned and will distribute to our unitholders $0.84 per unit compared to $0.67 for last year's fourth quarter, higher base and performance fees primarily drove the improvement.

For the year revenues increased by $235 million to $2.7 billion, operating income increased by $126 million to $750 million, and operating margin increased by 240 basis points to 27.7%. Adjusted EPU increased to $2.30 from the prior year's $1.89. Higher base and performance fees drove the increase in revenues and diligent expense management drove our continued margin expansion.

We delve into these items in more detail on our adjusted income statement on slide 17. Beginning with revenues, fourth-quarter and full-year net revenues rose 16% and 10% respectively versus the same prior-year periods. Fourth-quarter and full-year base fees rose 15% and 11% respectively year on year due to higher average AUM across all three distribution channels and higher fee rate realization reflecting a mix shift from lower to higher fee products.

For the full year total average AUM increased 7.9% and the portfolio of fee rate increased 2.7%. Approximately $50 million, or 24%, of the $208 million total increase in base fees came from higher fee rate realization. Fourth-quarter performance fees of $80 million compare to $29 million in the same prior-year period. For the year, performance fees increased by $72 million to $105 million.

For both periods, the increase is primarily due to higher performance fees earned on our securitized assets, middle-market lending, concentrated growth equity, US select equity long/short and Aria partner services in more favorable fixed income and equity markets.

Fourth-quarter and full-year revenues for Bernstein Research Services both decreased 6% from the same prior-year periods due to a decline in US client trading activity and a shift to lower fee electronic trading on the part of European clients, which was only partially offset by increased client activity in Asia and a weaker dollar.

Fourth-quarter and full-year net distribution expenses increased $2 million and $12 million respectively due to the distribution mix shift of Asia Retail fund sales towards higher fee distributors and higher promotion payments resulting from increased fund sales.

Other revenue increased 7% for the fourth quarter as higher dividends and interest earned on broker-dealer investments were partially offset by lower capital gain distribution on seed investments.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

Full-year other revenues increased 12% as a result of higher dividends and interest earned on broker-dealer investments partially offset by lower shareholder servicing fees resulting from the loss of the Rhode Island College savings investment mandate in 2016. In addition the fourth quarter 2016 included a one-time $2 million refund of custodian fees.

Interest expense increased $5 million for the fourth quarter and $16 million for the full year as a result of higher interest paid on broker-dealer customer balances because of higher interest rates.

Moving to adjusted expenses, all in our total fourth-quarter operating expenses of $498 million increased 10%. Full year operating expenses of $1.954 billion increased 6% from the prior year. Total compensation and benefits expense increased 10% in the fourth quarter and 6% for the full year driven by higher incentive compensation, commissions, fringe and other employment costs.

In addition, base compensation increased for the full year due to higher severance costs. Compensation was 42% of adjusted net revenues for the fourth quarter and 47.1% for the full year.

As a reflection of the operating leverage of our business, we were able to lower our comp ratio while still meeting our compensation objectives for the year. The 140 basis point reduction in our comp ratio for full-year 2017 with a 48.5% ratio in 2016 added approximately $0.13 to our fourth-quarter EPU.

Going forward we expect to continue to manage to a comp ratio that will not exceed 50% in any given year. However, given current market conditions, we plan to accrue compensation at a 48.5% ratio in the first quarter of 2018 with the option to adjust accordingly throughout the year if market conditions change.

Fourth-quarter promotion and servicing increased 5% versus the same prior-year period due to higher trade execution and marketing expenses. Full-year promotion and servicing expenses decreased 2% due to lower T&E and a reduction in transfer fees that resulted from the loss of the Rhode Island College savings investment mandate in 2016.

G&A increased 12% year-on-year in the fourth quarter, and 8% for the full year due to higher professional fees, claims processing, technology expenses and foreign exchange translation losses. Both the fourth-quarter and full-year comparisons are distorted by nonrecurring items. Both prior periods included a one-time $3 million benefit for the reduction of legal reserves related to settled litigation.

In addition, third-quarter 2017 G&A included a net nonrecurring charge of $15 million related to the net effect of the outsourcing contract termination charge and Asia value-added tax refund that I discussed on our third-quarter earnings call. Excluding these nonrecurring items, G&A would have increased by 9% in the fourth quarter and 4% for the full year.

Fourth-quarter operating income of 272 million increased 30% and full-year operating income of $750 million increased 20% from the prior year periods as revenue growth outpaced expense growth. The incremental margin for the fourth quarter and the full year 2017 was 58% and 54% respectively.

Fourth-quarter operating margin of 35.3% was up 370 basis points year on year. Our full-year 2017 operating margin of 27.7% was up 240 basis points from 2016 and represents our sixth consecutive year of margin expansion and our highest in nine years. These outstanding results demonstrate our continued diligent focus on expense management and the operating leverage of our business.

You may have noticed that our fourth-quarter adjusted operating income was $11 million lower than our GAAP operating income. We excluded two items from our adjusted results that are not part of our core business operations. First we recorded a $3 million non-cash real estate credit for GAAP reporting to true up our sublease assumptions relating to prior period real estate write-offs. Second, we deconsolidated certain seed investments in our adjusted results that we had consolidated for our GAAP reporting. Consolidating these investments increased operating income by $8 million but did not affect net income or ETU.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

For the year adjusted operating income of $750 million was $24 million lower than our GAAP operating income. Here we excluded four items of note: $58 million in consolidated variable interest entities operating income; $37 million in real estate charges; $2 million in acquisition costs; and a $5 million non-cash gain realized on the exchange of software technology we developed for an ownership stake in a third-party provider of financial market data and trading tools. These non-GAAP adjustments are outlined in the appendix of this presentation.

Let's discuss the impact of tax reform legislation enacted in December. The new tax legislation increased our tax expense by $26 million, $3 million from the revaluation of the deferred tax assets recorded at our US corporate legal entity, and $23 million from the deemed repatriation or toll charge on foreign earnings.

However, as discussed on previous earnings calls, beginning in 2017, we provided US tax on foreign earnings and allowed them to flow back to the US. This afforded us more flexibility in managing our US intracompany payable balances with foreign entities and accessing cash generated in our foreign entities. Therefore the net effect of incremental increase in tax expense is only $8 million rather than the $26 million mentioned earlier resulting in a net $0.03 reduction in both GAAP and adjusted EPU.

The full-year 2017 effective tax rate for purposes of calculating adjusted EPU for AllianceBernstein LP was 7.6%, similar to the 7.2% for 2016. The full-year 2017 GAAP effective tax rate for AllianceBernstein LP was 6.9% and reflects a $5 million nonrecurring income tax credit recorded in the third quarter.

Both the adjusted and GAAP effective tax rates for 2017 include a net incremental nonrecurring 100 basis point increase attributed to the tax reform legislation. Going forward we expect the effective tax rate for AllianceBernstein LP to be approximately 5.5% based on our current forecasted mix of domestic versus foreign pretax earnings.

Finally, we will implement a new revenue accounting standard, ASC 606, effective January 1, 2018. Under this new standard performance-based fees may potentially be recognized as revenue earlier than in the past since the threshold required has been lowered. As disclosed in our 2017 10-K, which we filed earlier today, and in previous quarterly filings, we have deferred the recognition of approximately $35 million of operating income related to our real estate equity investment fund which required a higher threshold to achieve under the former revenue accounting rules.

With the implementation of ASC 606 using the modified retrospective method we expect the test required for recognition will be satisfied and the opening 2018 balance sheet will reflect the $35 million increase in partner's capital.

Although this amount is not expected to be reflected in the first-quarter 2018 GAAP P&L as per the implementation rules, we plan to reflect the $35 million in operating income in our first-quarter 2018 adjusted P&L, which we would expect to increase our adjusted EPU and unitholder distribution by approximately $0.12.

We highlight these points on the next slide of the presentation as well. And with that Seth, Jim and I are pleased to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Robert Lee, KBW.

Robert Lee - *Keefe, Bruyette & Woods - Analyst*

Maybe I would just like to, Seth, drill into the Private Wealth business a bit. Clearly it's -- momentum there has been pretty good the last couple years, the last several quarters. Can you maybe just update us on -- and I know this was an area that you thought you could put some incremental focus when you joined the Firm.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

So can you maybe update us on what you are thinking about in that business in terms of whether it is further build out or how do you keep up or accelerate the momentum you have had there? I don't know if it is hiring more financial advisors or building new offices. Just how you're thinking about that business.

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

Thank you for the question. I think that business has done a remarkable job transitioning itself and now putting itself on its front foot and being aggressive about appealing to a broader array of clients, particularly those that are more affluent, particularly through our targeted services.

It's a less prescriptive approach to managing money and it gives our clients the opportunity to take advantage of more thematic ideas and (technical difficulty) that our portfolio managers have created and it seems to have real resonance with them. And so, it's certainly been driving a significant chunk of the incremental growth in helping us penetrate more affluent clients.

We are certainly aiming to hire more FAs in order to increase our penetration in markets we are already there -- where were already present. It has been difficult for us. I think it's been difficult broadly for the industry to do it, but we are very focused on improving our ability to develop (technical difficulty) both organically through the ranks but also laterally.

But we are very encouraged by the productivity there, the increasing productivities of the FAs themselves, the better penetration and the fact that they are moving up market, but it's a tough slog. It's a very mature market and one that we think we have a differentiated proposition to offer.

Robert Lee - *Keefe, Bruyette & Woods - Analyst*

Maybe my second question, kind of a follow-up to that. That business has also been instrumental in building out your various alternative offerings and whatnot. Could you maybe update us on where you think you may be in starting to bring some of your offerings to a broader Institutional marketplace where it just seems like demand for alternative strategies -- or certain type of alternative strategies, private credit and whatnot, is almost insatiable at this point? So maybe what your plans are there, too.

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

I think I'd share your view that demand among Institutional clients for credit has been very strong. We have seen that in our commercial real estate and in our middle-market lending area. Both are available to our private clients, but we've seen significant acceleration in Institutional demand for both.

But we've seen demand beyond just in sort of private credit space. Whether it's in some of our more thematic ideas, financials, but also Aria where, if you will recall, we recruited the team a couple years ago and we have been building it out. And we've been seeing increasingly satisfying momentum in the growth of that strategy with institutions as well as private clients.

So you're right, it's been a platform on which we -- Private Client has been a platform on which we have launched a number of these newer capabilities, but it's growing well beyond the Private Client platform in terms of its demand from our client base.

John Weisenseel - *AllianceBernstein Holding L.P. - SVP & CFO*

Rob, I would just point out, again, if you look at our pipeline in the Institutional channel, now 40%-some is actually alternatives. And clearly the fee rate on alternatives is higher than it is on more traditional services, which is a big part of why, when we you look at the fees associated with that pipeline they are at an all-time high.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

Robert Lee - *Keefe, Bruyette & Woods - Analyst*

Great. Thank you. I will get back in the queue.

Operator

Alex Blostein, Goldman Sachs.

Alex Blostein - *Goldman Sachs - Analyst*

Wanted to go back to one of your early points around the recent impact of volatility. Obviously last week was quite unprecedented on a number of different fronts -- having you guys report after that and most of your peers reported obviously earnings already. It might be helpful to just kind of see what kind of trends you guys are seeing. And what are the conversations with clients like after the spike in volatility? And any sort of near-term implications you guys see for the product base.

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

Well, look, it's too early to make longer-term conclusions on it. I would certainly say that Retail clients are less interested in investing at the moment and we are seeing more volatility inflows. As a consequence of that it has been more concentrated in credit. Equity flows have continued to be pretty good. But on balance the overall volume of activity is down from the third quarter of last year. And I think volatility, if it continues will begin to see more meaningful outflows.

Jim Gingrich - *AllianceBernstein Holding L.P. - COO*

I think maybe the most important thing to note is that we are very pleased with the performance across our array of services during this period of volatility. The large majority have done as we would expect them to do, which, again, you're going to have these bouts of volatility, no doubt. But in terms of long-term growth profile for the firm and whether or not we are delivering for clients, we are very happy with how all the investment teams have done.

John Weisenseel - *AllianceBernstein Holding L.P. - SVP & CFO*

And Alex, this is John. I would just add that where last year the lack of volatility resulted in Bernstein research services, their revenues down 6%. Obviously they are doing much better on a year-to-date basis and the trading volatility has been helping them.

Alex Blostein - *Goldman Sachs - Analyst*

Got it, yes, that is helpful content. Second question just around expenses. And I guess maybe this quarter, but also as we look out into next year, the performance fee dynamic obviously very strong quarter, but it doesn't seem like we've seen much of that show up in expenses. And so obviously very high incremental margin.

Is that a reasonable path for margins on your performance fees going forward? Or there was something a bit more unique about this quarter that led to a material step up in performance fees, albeit seasonal, but without a huge follow-through into expenses?

John Weisenseel - *AllianceBernstein Holding L.P. - SVP & CFO*

It's John, Alex. You are absolutely correct, the fourth quarter typically is our largest quarter for performance fees because the majority of our contracts are based on an annual basis which end on a calendar basis.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

In terms of the incremental margin we were at I think 54% for the full-year and we were higher in the fourth quarter, I think I said 57%. I think in terms of -- obviously we would have an higher incremental margin in the fourth quarter with the performance fees. But I think going forward we would be targeting -- as long as the AUM and the fee rates continue at this particular level to higher, we should be around the 50% level in terms of incremental margin.

And when you look out for 2018 as far as the non-compensation expenses, we really are in a cost-containment mode in terms of promotion servicing and G&A expenses. And so, when you strip out all the non-recurring things that we had going on in 2017, we would be trying to keep those promotion servicing and G&A expenses growing somewhere in line with inflation going forward.

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

Alex, two other points I would add on to John's comments. One is I do think it would not be correct to assume that there's no compensation associated with those performance fees, in fact there is. But we do accrue for that over the course of the year, so it doesn't necessarily line up perfectly with the revenue recognition on those performance fees.

Second, as you think about performance fees, obviously there is a component of it that is driven by the beta in the market. There's another component -- as John noted, there's a pretty broad array of services that have contributed to those performance fees.

And as our mix, if you will, in the business continues to shift or alternatives become a bigger piece of the Company, I would expect performance fees to also become a larger piece of our overall revenue picture. In fact as John noted, we will be recognizing a large performance see in the first quarter related to our real estate equity business.

Alex Blostein - *Goldman Sachs - Analyst*

Yes, all makes sense. Thanks, guys, very much.

Operator

Surinder Thind, Jefferies.

Surinder Thind - *Jefferies LLC - Analyst*

I wanted to just touch base on the investment performance and flows. With your fund performance what I would say at or near the top end versus your peer groups, all else equal, aside from the current volatility, how much more do you think you could push organic growth rate? I mean it's already currently at about 3% annualized. How much upside do you guys think you can get from here?

Jim Gingrich - *AllianceBernstein Holding L.P. - COO*

Look, let me say that, again, as you noted, our AUM growth is [3]. Obviously as Seth said in his remarks, the growth in our active services, which is I think the performance you were referring to, is higher than that. The growth in our active services, both in terms of active versus passive as well as mix, contributed to the fee increase we saw year on year.

So in terms of our overall organic growth, to your point, it was pretty robust in 2017. Performance, as you've indicated, tends to be a leading indicator of future flows. And we've also continued to make investments in our distribution capabilities and the relationships that we have both with intermediary partners as well as consultants continues to improve. That has to be seen against a backdrop of what's happening in capital markets.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

And so, where that goes in the future is, I think, very tough to predict year on year or quarter to quarter. But we are very confident that we are executing on the things that we need to do to be able to deliver consistent growth that is broad-based and durable over the long-term.

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

And I think it's important (multiple speakers) I think it's also worth noting that the mix of that business, as Jim had alluded to earlier, has really changed profoundly such that we are not as dependent on a particular service to drive that.

Surinder Thind - *Jefferies LLC - Analyst*

Understood. And for my second question, just wanted to touch base on the FlexFee products. You noted that it may perhaps take a few years to get to critical mass. Can you provide any color around those thoughts? I would have thought that perhaps, given how differentiated those products are, that you might be able to pull demand forward a little bit.

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

Well, first, we've got to get them up on the platforms and we are going through that process at our key counterparties here in the US and it's working well. We're quite hopeful. I think what will really happen is there will be options in their model portfolios and they will grow steadily with the growth of our Clients business.

I point out that moving assets out of existing similar funds for a lot of our clients or their clients might create tax events. So that would be a countervailing force that would slow the growth of the underlying funds themselves. So at least in my own mind I think about it more akin to their organic growth rates and getting a bigger piece of those pies.

So, we remain very pleased with the take-up with them, but we think it will grow in the normal course with the broader market rather than something that's going to drive forward flows. Maybe I'm wrong, but that's currently how we are thinking about it.

Surinder Thind - *Jefferies LLC - Analyst*

That's helpful and I'll get back in the queue. Thank you.

Operator

Bill Katz, Citi.

Bill Katz - *Citigroup - Analyst*

So just coming back to the expense discussion for a moment. I think you said you're going to probably update us in (inaudible) around the middle of this year, so I'm presuming at the end of the second quarter perhaps. Any early indications of how the focus on potentially migrating some of the staff outside New York City is going and the real estate consolidation?

And then just a point of clarification in terms of your comp ratio, the 48.5% you said in the first quarter. Would you expect the comp ratio trend to look like last year or what would be some of the puts and takes against that?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

John Weisenseel - *AllianceBernstein Holding L.P. - SVP & CFO*

Sure. Why don't I start off and, Bill, I will start with the second question first, then we can go to the first question. But on the comp ratio, as you know if you look at previous years, we've started previous years at 50% and then were able to work the ratio down as we got throughout the year. And last year came in at 47.1%.

As we start off this year we look at where our average AUM finished last year and we are coming to this year. We look at the fee rate, which is stronger this year than it was a year ago, we feel comfortable bringing the ratio down sooner and starting out at 48.5%.

Of course we are going to look at this each quarter as we go through the year as we did last year. If markets stay here or do better and AUM goes up that ratio could come down. If the reverse happens, if markets go down and AUM goes down that ratio may go up. So all we're saying is that looking where we ended last year, we're starting this year vis-à-vis where we were a year ago, we are in a much better place and we are comfortable starting out accruing at 48.5% as opposed to 50% that we did last year.

Getting to the first question with regards to the move, still a work in progress here. We still don't know where we're going, what parts of the Firm would go to the new principal location or the timing. We are further along in terms of discussions with different cities, different real estate developers than we were say two or three months ago but we still have a lot more work to do.

And I think the goal here would be to wrap this up in the first half of the year where by the end of the first half of the year we are able to talk about what the scale of the move is, what groups would go, where they would be going and the timeframe. But I could tell you though that this is a several year type of transition. In terms of if we start to move staff out of New York to a another location, it's going to happen over several years and we still maintain obviously a large presence in New York City.

Operator

Michael carrier, Bank of America.

Jeff Ambrosie - *BofA Merrill Lynch - Analyst*

This is actually [Jeff Ambrosie] filling in for Mike. Congrats on a strong quarter and year as well. Just quickly a cleanup one on expenses. I get the comp ratio guide of 48.5% and the trend there. Then just on the non-comp side, I think you said expect that to grow in line with inflation in 2018. So I guess, does that include any like budget for MiFID-related research costs?

John Weisenseel - *AllianceBernstein Holding L.P. - SVP & CFO*

What we said in the past jobs is that in Europe we plan to actually pay the research costs out of our P&L. And those costs are included in the numbers I just mentioned to you and they actually are immaterial.

Jeff Ambrosie - *BofA Merrill Lynch - Analyst*

Okay, great, thank you. And then just second one on distribution in the quarter. Just given those tend to be elevated from funds in 4Q and I think I understand that you guys count them as outflows. So just curious on that $4.2 billion inflow number, what that looks like ex distributions. Thank you.

John Weisenseel - *AllianceBernstein Holding L.P. - SVP & CFO*

No, the $4.2 million is an all in number in terms of the flows into our funds.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

Jim Gingrich - *AllianceBernstein Holding L.P. - COO*

But it doesn't include reinvested dividends.

John Weisenseel - *AllianceBernstein Holding L.P. - SVP & CFO*

That's correct.

Jeff Ambrosie - *BofA Merrill Lynch - Analyst*

Right. But it includes distributions as outflows, but anything that gets reinvested goes back into performance. Is that right?

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

Correct.

John Weisenseel - *AllianceBernstein Holding L.P. - SVP & CFO*

That's correct.

Jeff Ambrosie - *BofA Merrill Lynch - Analyst*

Got it, okay. So I guess is there a way to quantify what the distribution was?

John Weisenseel - *AllianceBernstein Holding L.P. - SVP & CFO*

Oh, without that, no, we don't analyze it that way.

Jeff Ambrosie - *BofA Merrill Lynch - Analyst*

Okay, thanks a lot. Thanks for taking the questions.

Operator

Bill Katz.

Bill Katz - *Citigroup - Analyst*

Okay, sorry about that. I was having some phone problems here as I was asking my questions, so I apologize. Just to follow up, you had mentioned in your prepared commentary that the multi-strat and some other target date funds were reaching some important milestones. Can you talk about how quickly you think that could ramp?

Just trying to think about the handoff between what you highlighted on the Retail slides versus the opportunity set here for some incremental drivers as we think about the full-year impact for flows.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

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

Well thanks, Bill, for the question. I thought we had left you speechless. But I think with respect to the multi-asset funds All Market Income is a product that I think has a potentially very big audience in the broader Retail space. As you know, multi-asset income products have been a cornerstone of a lot of our competitors' multi-asset sales and I think we have a distinctive approach to it.

With regard to the target date fund, that will go through normal DC channel distribution which is an Institutional sale. And I would think of it in that kind of timeframe. It's not something that picks up immediately. We've been looking at it, beginning to understand it and it's getting adopted and embraced. But I would think about that in an Institutional rather than Retail pace of pickup.

Bill Katz - *Citigroup - Analyst*

Okay, thank you.

Operator

Robert Lee, KBW.

Robert Lee - *Keefe, Bruyette & Woods - Analyst*

I'm just curious, I guess your parent company, I guess the US -- AXA US is going through its spin I'm assuming maybe this quarter, next quarter, soon. Just your perspective if you feel like there will be any impacts from changing hands so to speak, even though they own the stake now. But this is -- AXA US becomes a publicly traded company once again, do you envision there being any kind of change in governance or anything else?

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

Well as you know, we are in a quiet period. But I would tell you that we don't anticipate a change. We don't anticipate a change with respect to our relationship with either AXA US or AXA SA, the parent. We intend to continue managing money for them and it's a very close relationship for the Firm.

I would say that we are going forward a much bigger proportion of AXA USA's business. And so, in that context we are certainly engaged with them regularly. But I wouldn't say the day-to-day interactions are going to change in their frequency or tenor. I think this is a very mature relationship.

Robert Lee - *Keefe, Bruyette & Woods - Analyst*

That was it. Thank you for taking my question.

Operator

(Operator Instructions). We have no further questions. I'll turn the call back to our presenters.

Andrea Prochniak - *AllianceBernstein Holding L.P. - SVP, Head of IR & Corporate Communications*

Thank you, everyone, for joining our call today. And IR is available all day for any follow-ups you may have. Thank you.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS