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AllianceBernstein Holding

Third Quarter 2025 Earnings

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CORPORATE SPEAKERS:

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Thomas Simeone

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PARTICIPANTS:

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PRESENTATION:

Operator^ Thank you for standing by. And welcome to the AllianceBernstein Third Quarter 2025 Earnings Review. (Operator Instructions).

As a reminder, this conference call 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. Ioanis Jorgali.

Please go ahead.

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Ioanis Jorgali^ Good morning, everyone. And welcome to our Third Quarter 2025 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 Tom Simeone, 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 will present today is forward-looking and subject to certain SEC rules and regulations regarding disclosure.

I would like to point out the safe harbor language on Slide 2 of our presentation.

You can also find our safe harbor language in the MD&A of our 10-Q, which we filed this morning.

We base our distribution to unitholders on our adjusted results, which we provide in addition to and not as a substitute for our GAAP results.

Our standard GAAP reporting and a reconciliation of GAAP to adjusted results are in our presentation appendix, press release and our 10-Q.

Under Regulation FD, management may only address questions of material nature from the investment community in a public forum. So please ask all such questions during this call.

Now I'll turn it over to Seth.

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

I am delighted to update you on our progress against our goals for AllianceBernstein. Harnessing our diversified investment expertise and deep distribution capabilities, we remain steadfast in our commitment to providing better outcomes for our clients.

On Slide 3, I will review the key business highlights of the third quarter.

First, firm-wide assets under management have reached a new milestone, sitting at \$860 billion as of quarter end.

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Bernstein Private Wealth has reached a record high of \$153 billion, bolstering relationships within the ultra-high net worth client segment including wealth creators, family offices, global families and business owners.

Our institutional asset management business with \$351 billion in AUM caters to long-duration capital pools encompassing private markets, insurance general account assets and customized retirement plans.

Our \$356 billion retail platform serves robust markets like Asia Pacific and U.S. high net worth, offering secularly growing solutions such as SMAs, active ETFs and model portfolios spanning a diverse asset allocation. Through scale, improved operating leverage and a sustainable fee structure, we are driving consistent growth in revenues, earnings and margins, capturing profitable growth aligned with market dynamics.

Second, flow dynamics improved in the third quarter. Excluding \$4 billion of outflows related to the previously announced Equitable RGA reinsurance deal, our firm-wide net flows were \$1.7 billion positive. Demand was led by two secularly growing asset classes and consistent organic growth engines for AB, tax-exempt fixed income and private alternatives.

In the third quarter, we had over \$4 billion tax-exempt inflows, extending our streak of positive organic growth to 11 consecutive quarters. This quarter saw accelerated inflows from both retail and private wealth. AB is the #1 retail muni SMA manager.

We grew our tax-exempt platform to more than \$50 billion of AUM despite a very turbulent macro backdrop for muni bonds. Private markets generated nearly \$3 billion of net inflows, reflecting an improved backdrop for commercial real estate, coupled with strong origination for investment-grade corporate and ABS private placements.

While active equities shed over \$6 billion, driven by growth-oriented redemptions, we're seeing inflows in structured and defensive strategies such as our global structured equities, strategic core and U.S. Select.

Additionally, thematic investments such as Security of the Future and our disruptors ETF, ticker FWD continue to attract strong inflows and deliver relative outperformance. Net taxable outflows of approximately \$4 billion were largely episodic. Excluding the impact from the reinsurance transaction, firm-wide taxable flows were flat, reflecting improved retail and private wealth dynamics where we observed modest inflows.

Thirdly, we continue to enhance our third-party insurance asset management business, drawing on our extensive 40-plus years of experience in managing insurance assets.

We're excited to announce our new partnership with Fortitude and strategic investment in FCA Re. This represents another major milestone in our ongoing efforts to expand our leadership in

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global insurance asset management. Leveraging our prominent competitive position in the Asia Pacific market, we're gaining further traction as a partner of choice for insurers in the region.

Looking ahead, we're eager to expand our collaboration with Fortitude through this partnership.

Year-to-date, we've successfully onboarded seven new insurance GA relationships spanning across eight strategies. These partnerships necessitate a high-touch client service approach that goes beyond traditional asset management.

We've dedicated substantial operational resources and institutional expertise to provide a comprehensive client experience that is scalable, unlocking additional revenue streams beyond management fees.

Our strategic alliance with Equitable gives us a competitive advantage, reinforcing our client-centric asset-light approach.

By leveraging the permanent capital commitment from Equitable, we can seed and scale our higher fee, longer-dated private alternative strategies. To date, we've deployed approximately \$17 billion of the \$20 billion capital commitment made by Equitable to our AB private market strategies.

We see further opportunity to increase this allocation over time as Equitable continues to grow its general account assets.

Skipping to Slide 5, I'll review our investment performance, starting with fixed income.

In the U.S., a weakening labor market and better than feared inflation readings raised the possibility of rate cuts, pushing yields lower. Conversely, European and Japanese sovereign yields increased due to concerns over government stability, increased fiscal spending and the conclusion of the European Central Bank's rate cutting cycle. Credit markets performed well with investment-grade corporate spreads tightening and risk on sentiment for high-yield bonds. The Bloomberg U.S.

Aggregate Bond Index returned 2%, while the Hedge Global High Yield Index returned 2.7% in the third quarter.

Our 1-year performance faced challenges due to selection in emerging markets high-yield corporates and yield curve positioning, which detracted from our returns as longer yields fluctuated, ultimately ending lower. 30% of our fixed income assets outperformed over the 1-year period. Despite rates volatility, active management of duration and credit exposure has generated strong long-term returns with 86% and 70% of AUM outperforming over the 3- and 5-year periods, respectively.

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Our flagship income strategies, American Income and Global High Yield delivered high single-digit and low double-digit returns over the 3-year period. Both outperforming their Morningstar categories for that period. Notably, we observed a rebound in client flows into American income, reflecting resurgent interest in duration extension and U.S. dollar-denominated assets, highlighting the enduring appeal of U.S. assets supported by attractive rate differentials and deep capital markets.

Looking ahead, we maintain a positive outlook on fixed income, and we stand ready to capture the next reallocation wave as bonds regain their diversification value, credit fundamentals remain robust and monetary policy clarity increases. Turning to equities. U.S. equity markets delivered strong returns in the third quarter of 2025, benefiting from the resilient consumer spending, benign inflation readings and strong GDP and corporate earnings growth. The S&P 500 returned 8.1% during the quarter, reaching record highs.

Small-cap stocks outperformed large caps, driving a 12.4% returns for the Russell 2000 in Q3. Global developed equities posted positive returns, although they underperformed the U.S., while emerging markets outperformed.

Signs of improving market breadth are encouraging, but it's important to note that the recent rally was primarily driven by lower quality, unprofitable, high momentum and heavily shorted names. Given our limited exposure to these equity baskets, our relative performance was affected with 22% of assets outperforming over the one year, 41% over the 3-year and 53% of our equity AUM outperforming over the 5-year. Despite these dynamics weighing on the relative performance across the active industry, our client discussions regarding our decisions to underweight in these riskier names have been positive.

Our investment philosophy centered around an active approach to quality investing continues to resonate with those seeking such strategies.

Finally, I want to highlight the growing interest in international equities, where we have a diverse selection of active equity strategies with strong breadth and high-quality product offerings, balanced across geographies. These include our international strategic equities, international Small Cap, international value, emerging market strategic Core, China and emerging markets value.

Next, I'll briefly cover channel highlights before doing a deeper dive into our retirement and private alternatives capabilities. Turning to Slide 6 with our retail highlights. Despite facing channel outflows for the second consecutive quarter, we observed a notable uptick in momentum, driven primarily by active fixed income.

Sentiment around taxable fixed income has improved as rates volatility stabilized. Taxable net flows rebounded slightly in the third quarter, driven by our fixed income ETF platform in the U.S. and improving demand for our American income product in Asia.

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Furthermore, our tax-exempt retail inflows reaccelerated, growing organically at an impressive 26% annualized rate.

We think the bond reallocation theme has more runway, and we stand ready to assist our clients in capturing the enduring value proposition of fixed income as we effectively demonstrated in 2024.

Moving on to Slide 7 to cover our institutional channel.

Our private alternative services are experiencing significant inflows with a range of existing, adjacent and new strategies in illiquid credit, attracting substantial investments from equitable and third-party institutions.

Our pipeline AUM currently sits at around \$12 billion, showcasing notable fundings in both liquid and illiquid credit as well as active and passive equities.

We anticipate an additional \$1.5 billion in private markets AUM in the upcoming quarters, a figure not yet accounted for in our pipeline.

Next, I'll move to Slide 8 to cover private wealth. Through a blend of flexibility, insight and personal attention, Bernstein Private Wealth continues to gain market share in the ultra-high net worth channel.

Our private wealth channel delivered strong sales and the highest inflows in 10 quarters, reflecting strong adviser productivity and cross-asset client allocations. Bernstein Private Wealth represents 18% of our firm-wide assets with average client tenures more than 10 years, generating approximately 36% of our firm-wide revenues.

Moving to Slide 9.

I'd like to talk about how AB is helping clients navigate one of their most important financial objectives, retiring with confidence. The retirement landscape has evolved a lot over the years. There are fewer younger workers to care for our aging populations and with longer lifespans, the savings challenge is even greater. The shift from defined benefit to defined contribution plans is reshaping the way people prepare for their golden years.

More than ever, the burden is on individuals to save on their own and choose their own investments. Getting it wrong could leave them without the reliable income stream and retirement last that EB plans once provided.

Innovation has played a pivotal role in addressing the evolving trends and challenges in retirement planning. Target date funds became very popular after the passage of the Pension Protection Act of 2006.

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It was a meaningful step in improving retirement outcomes, and it relieved individuals from the burden of having to make complex asset allocation decisions that they weren't trained to do.

But markets have become increasingly complex, and we did continue to innovate by customizing target date funds at the plan and participant level and incorporating a broader set of asset classes including private assets and insurance solutions that provide guaranteed lifetime income. AB's custom target date business was launched in 2006.

Today, about two decades later, it stands at approximately \$105 billion in assets under management across 27 global clients, mostly concentrated in the U.S., but also with a meaningful business in the U.K., where we've been an industry leader for well over 10 years.

We've seen more custom target date searches this year, and we're pleased to have been selected recently to design and manage a custom target date solution for a large U.S. insurance company's DC plan.

It's the second mandate we've won this year. Combined, they totaled nearly \$4 billion and both will be implemented in the first half of 2026.

Additionally, we were selected earlier this year to run a custom and retirement solution for one of the largest DC Master Trust in the U.K., which is expected to grow to significant scale over time.

In collaboration with Equitable, we were first movers in the in-plan lifetime income market.

Our industry-leading lifetime income strategy, also known as LIS, manages \$13.5 billion of total assets and \$5 billion of that is guaranteed by five insurance companies. LIS gives DC plan participants a personalized target date portfolio with a flexible guaranteed income option, addressing both their accumulation and deaccumulation needs. When we first launched LIS in 2012, we designed it to comply with QDIA regulations so that it could be a true default option for DC plans.

Our team's foresight proved invaluable.

On September 23, an advisory opinion from the U.S. Department of Labor affirmed that DC plan sponsors can benefit from ERISA's fiduciary safe harbor when they select AB's LIS program. This endorsement validates our approach and offers further reassurance to plan sponsors. The guidance significantly reduces regulatory uncertainty and shields our plan sponsor clients from potential litigation risks. That empowers them to focus on what really matters, solving for the best outcome for their participants.

In fact, participants in our multi-insurer secured income portfolio have both guaranteed income for life and net of fee returns that have exceeded the typical target date fund benchmark since inception.

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Our design allows us to take on higher equity exposure and has delivered returns that have offset the cost of the insurance.

We continue to expand our lifetime income platform to provide choice to plan sponsors. This includes the option to add lifetime income without changing their current target date provider and a new fixed annuity version of the SAB secured income portfolio. Combining the recent DOL advisory opinion with our 13-year track record, expanded lifetime income solutions platform and ongoing integrations of additional recordkeepers, we are well positioned to benefit as interest in these solutions continues to grow.

Expanding access to private assets and DC plans is another area where AB's innovation has already been addressing the need for more diversification and new return sources.

We believe that incorporating private assets and target date funds can help deliver long-term results while also minimizing downside risks for participants.

We've been doing this for a decade now in both the U.S. and the U.K.

We've embedded private assets into glide paths for many of our clients.

This includes both corporate and public plans and spans private market segments such as private equity, private credit and private real estate.

Finally, I'd like to close with Slide 10, which highlights our private market capabilities and our strong growth in this platform.

Over the past decade, we've successfully expanded our private markets platform to nearly \$80 billion in fee-paying and fee-eligible assets under management, representing a 17% year-over-year growth.

We focused on credit-oriented strategies, offering diverse capabilities tailored to various risk, return and portfolio objectives.

AB Private Credit Investors, or APPCI, our \$22 billion middle market direct lending platform has a 17-year track record investing in directly originated privately negotiated loans to core middle market companies, offering a variety of solutions to institutional, insurance and individual investor clients. AB CarVal, our \$20 billion global asset-based credit platform has a 38-year track record specializing in consumer, real estate, aviation and energy transition opportunities, investing across drawdown, evergreen and interval funds and across the capital structure from investment-grade private credit through opportunistic investing.

U.S. and European commercial real estate lending, our \$12 billion commercial real estate lending platform invests across property type and business plan in the U.S. and Europe, spanning

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multiple risk return profiles with fund, REIT and SMA offerings. Corporate and structured private placements, our \$18 billion platform offers a differentiated relative value orientation to complement investment-grade portfolios.

In addition to continued organic growth in this business, the private credit markets continue to scale and diversify, we're actively exploring strategic partnerships and lift-outs to further expand our capabilities.

For instance, our structured private placement team, we onboarded approximately one year ago and already manages more than \$2 billion in AUM. More recently, we added a correspondent residential mortgage team to expand the origination capabilities of our existing residential mortgage platform.

Our relationship with Equitable provides us with significant competitive advantage as we expand our private markets business.

We continue to scale existing and develop new solutions in partnership with Equitable, leveraging our existing investment teams such as residential mortgages, NAV lending and private investment-grade asset-backed finance. These solutions are also core to our offering to other insurance and institutional clients, helping drive diversified growth in our private markets franchise.

Our ability to provide borrowers with a range of solutions across the cost of capital spectrum and match those investment opportunities to the various risk reward profiles of our diversified client base is a competitive advantage.

With strong momentum in the business, we're confident that we'll achieve our target of \$90 billion to \$100 billion of assets under management by 2027.

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

Thomas Simeone^ Thank you, Seth.

We are pleased to report strong financial performance in the third quarter, reflecting growth in asset management fees driven by record AUM and focused expense discipline. Adjusted earnings for the third quarter came in at \$0.86 per unit, representing a 12% increase compared to the prior year. Distributions grew uniformly with EPU as we distribute 100% of our adjusted earnings to unitholders.

On Slide 11, we present our adjusted results, which exclude certain items not considered part of our core operating business.

For a detailed reconciliation of GAAP and adjusted financials, please refer to our presentation appendix or 10-Q.

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In the third quarter, net revenues reached \$885 million, a 5% increase compared to the prior year. Base fees grew 5% year-over-year, in line with net revenues. Total performance fees of approximately \$20 million decreased by \$6 million. Dividend and interest revenue, along with broker-dealer-related interest expense declined compared to the prior year, reflecting lower cash and margin balances within private wealth.

Investment gains totaled \$8 million, while other revenues were flat versus the prior year.

Moving to expenses.

Our third quarter total adjusted operating expenses were roughly flat at \$582 million compared to the prior year.

In the third quarter, total compensation and benefits expenses amounted to \$439 million, representing a 6% increase in absolute dollar terms compared to the previous year. This was due to a 48.5% compensation ratio of adjusted net revenues, slightly higher than the 48% ratio reported last year.

We expect our fourth quarter 2025 compensation to revenue ratio will remain at 48.5%.

We see potential upside if markets remain supportive for the remainder of the year. Compared to the previous year, third quarter promotion and servicing costs remained stable, while general and administrative expenses decreased by 17% year-over-year. This reduction was primarily due to lower professional fees and the onetime accelerated lease expense of around \$12 million in the third quarter of 2024. Year-to-date, our non-compensation expenses are approximately \$437 million, tracking better than our revised full year guidance range of \$600 million to \$620 million for 2025.

As a result of expense discipline and enhanced operational efficiency, we are again lowering our non-compensation expense projection to fall within \$600 million to \$610 million for the full year, anticipating a tick up in the fourth quarter of 2025.

As a reminder, promotion and servicing accounts for roughly 20% to 25% of non-comp expenses and G&A for 75% to 80%

Third quarter interest on borrowings decreased by roughly \$1 million versus the prior year due to lower cost of debt and lower debt balances.

We have not funded our commitment to the Ruby Re sidecar, which we now expect will be called in 2026.

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In the meantime we are pleased with the progress of the partnership and look forward to further advancing our collaboration with RGA. ABLP's effective tax rate was 6% in the third quarter, in line with our full year guidance of 6% to 7%.

Our operating income of \$303 million is up 15% versus the prior year, reflecting strong margin expansion of 290 basis points.

Over the last three years, operating income has grown at a 13% CAGR, reflecting 7% growth in revenues, excluding Bernstein Research.

While markets have been a tailwind to equity-driven revenues, that has not necessarily been the case for fixed income markets.

We have managed to grow our liquid and private credit platforms largely organically, capitalizing on our strategic relationship with Equitable.

At the same time we have delivered on initiatives such as the Bernstein Research deconsolidation and the real estate relocation strategy to further enhance profitability and boost margins. Transitioning to Slide 12, I'll cover the trajectory of our firm-wide base fee rate, net of distribution expenses.

In the third quarter of 2025, our firm-wide fee rate increased to 38.9 basis points versus 38.7 bps in the prior quarter. The sequential shift in AUM was supportive in 3Q as equity markets outpaced fixed income returns. Average active equity AUM made up 32.8% of firm-wide AUM in the third quarter versus 32.3% in the prior quarter, but this is below the prior year's 34%, reflecting a negative year-on-year mix.

Partially offsetting market dynamics, quarterly flows and FX dynamics were less supportive to our firm-wide fee rate.

We observed outflows from higher fee retail services alongside organic growth in lower fee categories such as SMAs, ETFs and retirement.

We continue to grow our private markets capabilities, which has also been supportive against the industry-wide fee rate pressures.

Our historical track record demonstrates a relatively durable fee rate with our regional sales mix and strategic growth initiatives helping to partially mitigate industry-wide fee erosion.

Over the past five years, our base fee rate has generally fluctuated between 39 and 40 basis points, reflecting relative stability versus the industry.

Our all-in fee rate including performance fees, has ticked higher over time reflecting the growth in our private markets AUM.

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We are making significant strides in tapping into secularly growing long-duration capital pools that we can scale rapidly, leveraging our partnership with Equitable and our unique distribution capabilities.

We remain enthusiastic about the value we bring to our clients and shareholders by focusing on scalable long-duration assets that align with our commitment to sustainable organic growth and long-term profitability rather than solely concentrating on fee rates.

Slide 13 offers a breakdown of our performance fees across private and public strategies. Third quarter performance-related fees totaled approximately \$20 million with nearly \$18 million generated through our direct lending platform within private wealth and approximately \$2 million from institutional services, both public and private.

In the fourth quarter, we expect an additional \$35 million to \$40 million in private market performance fees, reflecting modest upside from AB CarVal's strong performance, coupled with an improved real estate backdrop for our CRE debt services.

Strong year-to-date public markets have also increased the likelihood of upside from public market strategies that could potentially crystallize in the fourth quarter, assuming stable markets. Therefore, we expect an additional \$5 million to \$25 million from public performance fees. All in, we are raising our full year performance fee guide to \$130 million to \$155 million in total performance fees from our prior guide of \$110 million to \$130 million.

As you can see, the range of potential outcome will largely be driven by our public market strategies.

Assuming flat markets, we view our guide as a floor rather than a ceiling, although we caution that the prior year's upside was largely driven by sector-specific windfalls in select public strategies. Although public beta is volatile and difficult to predict, our public alternative strategies improve our market leverage profile and provide additional upside in strong markets. This complements our more dependable private market performance fees, creating an attractive performance fee stream for our business.

Turning to Slide 14.

As previously mentioned, the adjusted operating margin rose to 34.2% in the third quarter, a 290 basis point increase from the prior year.

As a result of favorable market conditions and improved operational efficiency, our year-to-date adjusted margin of 33.4% stands above our market-neutral forecast of 33%.

We are pleased with the progress we have made to enhance margins, currently exceeding the midpoint of our Investor Day target.

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As we have successfully executed on our major market-neutral initiatives to boost margins including the successful completion of the Bernstein Research deconsolidation and the North America relocation strategy, we see market performance and scalability as the primary drivers for future margin expansion.

Our strategic focus includes allocating resources to targeted growth initiatives like adding investment teams, new product launches and marketing efforts, which are aimed at delivering enhanced earnings over time.

While we continue to be disciplined on expenses, we are committed to investing in growth to create lasting value for our unitholders.

We expect our ongoing allocation of resources to targeted growth initiatives such as new teams and products to drive organic growth and sustainable profitability over the long term.

Before we proceed to the Q&A session, I want to express my sincere appreciation to all my colleagues for their continued contributions and commitment.

We are steadfast in our goal to efficiently allocate capital, create value for our clients, investors, employees and stakeholders by simultaneously diversifying and expanding our business.

With that, we are pleased to answer your questions.

Operator?

QUESTION & ANSWER:

Operator^ (Operator Instructions). Our first question will come from Bill Katz from TD Cowen.

William Katz^ I apologize, my voice is dealing with a bit of a hoarse situation here. Maybe starting on the insurance opportunity.

I was wondering if you could flesh out maybe how the economic opportunity would sit with the opportunity with Carlyle. Then I think you mentioned in your commentary that the Ruby Re might get extended out to 2026.

I was wondering, is that a delay?

What might be driving that?

Onur Erzan^ Bill, let me take that. Yes. We are very excited about the continued momentum in our insurance asset management business. FCA Re is our second side card investment to build on that positive experience we had with Ruby Re. Everything is going as planned with Ruby Re.

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We are pleased with the results to-date.

It's in line with our IRR expectations. The relationship with RGA is off to a phenomenal start with all of the IMAs in place, and we already started deploying capital in all of the IMAs we have across multiple private alts mandates. All-in-all, no issues with the sidecar expectations, performance as well as our RGA relationship. That is obviously independent of the sidecar given we manage assets for the RGA balance sheet.

On the FCA Re, obviously Carlyle is one of the investors with Fortitude as well as a number of Asian insurance companies.

We really like that sidecar and it's additive to Ruby Re because Ruby Re is in the asset-intensive space, primarily U.S. liabilities versus FCA Re takes us to a very attractive Asian insurance market.

It's also quite synergistic with our broader Asia strategy. All-in-all, in terms of our insurance strategy with seven new clients in GA and 25 in general account relationships with eight new mandates and with two successful sidecar investments, we believe we are on track.

Seth Bernstein^ Bill, it's Seth, and I hope you're feeling better. Just to clarify, the timing of the funding on RGA hasn't changed.

It was always going to be deferred.

I mean it was always scheduled to be over this period.

I don't think there's any delay of any sort to note.

William Katz^ Just maybe the second question.

It just seems like a lot of attention around the opportunity in private credit.

I was wondering if you could speak to just a couple of different facets. Maybe what you're seeing in terms of credit quality.

It seems to be quite a kerfuffle out there, which doesn't seem logical to us, but nonetheless.

And I was wondering if you could also help us understand what the rate sensitivity might be to the extent that forward rates come down and how we might think about Part one fees into 2026?

Seth Bernstein^ Well let me start and whether it makes sense or not, Tom should jump in if I missed part of the answer.

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As we look at our various private credit teams, we see pretty competitive environment, pretty aggressive bidding for transactions across different asset classes with maybe the exception of commercial real estate, which, as you know has been out of favor for a while, although we do see more and more opportunities there.

I'd also say that we do believe these are one-off transactions and don't -- issues and don't suggest a broader material deterioration in credit quality. The economy continues to be fairly robust, albeit slowing. The maturities that many of our counterparties are facing are manageable and their cash flow generation is positive.

On balance, we think we're in pretty good shape.

With respect to First Brands, which is one of the names you did mention, we do have exposure there, and we think we're pretty well protected, given that ours was an inventory financing vehicle rather than funding receivables.

We have a perfected interest.

Look, there's -- time is going to tell but we feel at this point, given the discussions we've had with all parties, we're sitting in a pretty good place. All-in-all, we feel that they're continuing to grow.

There will be deterioration in credits more broadly, and there will be individual names where fraud and other issues do arise, but we're not in any way shaken or disturbed by the course of the market.

Thomas Simeone^ Yes.

I think the only thing I'd add there, Seth, is as rates decline, that may have an impact on our ability to generate performance fees.

Operator^ Our next question comes from Craig Siegenthaler from Bank of America.

Craig Siegenthaler^ My question is on your Asia business and what you're seeing and hearing from investors in the region. Following liberation day in the trade conflict in the first half of the year, how have investors in Asia reacted to that? Have you seen any demand rotations from U.S. to Asia product or from U.S. to global product?

Onur Erzan^ Craig, let me take that question. To answer specifically for AllianceBernstein, actually, in the third quarter, we definitely saw improvement in our Asia business, particularly in taxable fixed income.

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We continue to see strong engagement from institutional clients as well. All-in-all, despite the noise from tariffs, some of the debasement of the U.S. dollar, we have not experienced any major impact on our business.

But in our travels, anecdotally, clients talk more about getting exposure to other currencies and diversifying more into global and international equities.

Also let me emphasize that our equities platform is a global platform. Although, we are a U.S.-headquartered global asset manager, our equity strategies are global.

We have international strategies.

We have regional strategies.

We have global strategies.

We are not necessarily at a disadvantage if there is a rotation away on a tactical basis or a structural basis from U.S. equities into international or global.

In our case, I think the pressure has been primarily in our large-cap growth product, and that is isolated in Japan.

Obviously as you know we have delivered very impressive performance in Japan through that product over many, many quarters.

I think it's natural to see some slowdown at some point.

I believe that is a much more product-specific trend as opposed to a broader structural or systemic risk for our business.

Seth Bernstein^ Craig, I would just add that we have on the ground fundamental research capabilities in China and in broader Asia. And we are seeing more and more inquiries for those strategies, principally from outside the U.S., but that interest is there and growing.

I would also say just back on the institutional point in Asia, we are continuing to see demand institutionally for U.S. fixed income.

Craig Siegenthaler^ For my follow-up, I just wanted some clarifications on the strategic partnership with Fortitude Carlyle Asia Re. How much capital do you invest in that sidecar? Where do those funds come from? Then I think you plan to manage private and liquid credit for Fortitude Carlyle Asia's general accounts.

Is that right?

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What is the AUM potential?

Onur Erzan^ Yes.

Let me start with the AUM and the asset class and then Tom can add on the financing implications, etc.

In terms of the relationship, this is to manage assets for the sidecar itself.

It is predominantly private credit.

We expect that to be around \$1.5 billion across multiple private credit strategies.

So that has a lot of similarities to Ruby Re, but there are two differences with Ruby Re. Number one, this is for the sidecar itself. Then in terms of the AUM lift, AUM lift here is going to be even greater when all the capital is called and deployed.

In terms of financing of these sidecars, I also want to highlight the funding of the equity typically takes time.

Let me hand it over to Tom to talk about the timing and the capital implications.

Thomas Simeone^ Yes. The commitment to FCA is \$100 million.

We plan to fund that in '26 or '27, when called. There's a couple of levers or a few levers rather than we have available to us to fund it.

We can -- we're very under-levered.

We have credit lines available to us. Then we have units through two avenues, either public units or private units with Equitable.

We'll evaluate the best course forward when we get there.

Onur Erzan^ Also to remind our investors, and we talked about it when we made the original Ruby Reinvestment. When we think about the economics of these deals, the economics come from two different parts, right? Number one is on the equity investment, we generate earnings. Typically, these sidecars are modeled to deliver mid-single digit -- sorry, mid-teens 15% IRR. And so that is one stream of income.

Then in addition to that 15% on average IRR, you get the downstream economics on the assets you manage with relatively long-term IMAs, and those IMAs tend to be very much focused on private credit. Pretty sticky assets, relatively high fee.

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As a result, it should be accretive to our revenue base and earnings on multiple dimensions.

Operator^ Our next question comes from Alex Blostein from Goldman Sachs.

Anthony Corbin^ This is Anthony on for Alex.

I wanted to touch on the margin and kind of expense growth trajectory as we look out into the outer couple of years. You guys are tracking ahead of your target for this year, and I appreciate the expense guide, but as we look out for the next couple of years, how should we think about the pace of margin expansion and non-comp expense growth?

Thomas Simeone^ Anthony, Look, I'm going to anchor back to Investor Day in 2023.

We had a long-term target of 30% to 35% operating margin. There were two big anchors to achieving that at that point in time.

It was the BRS divestiture as well as the relocation and consolidation strategy in the U.S.

We've achieved those.

We're currently at the midpoint.

We're going to hit our 33% margin target for 2025. From there, there's no other stories or big stories to share with you on the expense side.

We don't have anything of that size that's going to impact our expenses or be able to bring them down as those two that I just mentioned.

We continue to look for a lot of small wins, just as evidenced by our decrease -- our second decrease actually this year in our non-comp controllable expenses.

We're going to continue to look at items like that, but there's nothing more I can share with you related to that at this point.

Anthony Corbin^ Maybe for my follow-up, just on the buyback, it was pretty light this quarter, and I'm not sure if that had to do with the Equitable conversion. How should we think about the capital allocation strategy, specifically around buybacks or maybe any potential inorganic opportunities?

Thomas Simeone^ Yes. The light buyback this quarter had nothing to do with Equitable.

We do buy units back and retire them, as you're aware, for our deferred compensation plan.

We probably have another \$30 million to \$35 million left to go this year to fund that.

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I think it's just timing.

I did read your note this morning.

I just think it's a matter of timing.

I think your number was pretty close, but we only captured roughly \$4 million of that in Q3 versus what you had.

Operator^ Our next question comes from Dan Fannon from Jefferies.

Daniel Fannon^ Seth, I think you said the bond reallocation that's underway.

I wanted you to elaborate a bit on those comments. Then as you look at your performance in the products you have, do you think you're positioned to benefit materially from that reallocation if and when that occurs?

Seth Bernstein^ Thanks, Dan.

We continue to see, particularly in Asia, appetite remaining for taxable fixed income.

While it's not at -- the gross sales are not at the levels they were prior to April, they are recovering, and we feel good about the trajectory there. From a relative performance perspective in our flagship products, we're doing fine. That's -- we could always do better, but I feel that, that's not a hurdle to us gaining our share or better given our very strong distribution capabilities within the region.

Additionally, we continue to look at new strategies to deploy in the region. When I look back in the U.S., we -- look, we've had tremendous success in the tax-exempt SMA space.

We think we're the largest player now in it, and we continue to see increasing adoption for our customized -- mass customized solutions in a number of the key distributors and receptivity continues to grow as we innovate and develop more products.

Look, I think that the short-term performance in the third quarter wasn't as good just given a couple of call-outs that I mentioned earlier on in emerging markets credit and given just the volatility and duration, but we're feeling good about performance and the quality of the team and the discipline of their process. Dan, I think it's in good shape, but there's always going to be volatility from quarter-to-quarter.

Onur Erzan^ Let me add a few specific points.

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As Seth mentioned, per Morningstar, we are the #1 retail muni SMA manager based on net flows, so we definitely continue to capture market share.

In the third quarter, our annualized organic growth rate was, I think, around 26%, so very strong results there.

Second, in terms of broadening from U.S. fixed income to global fixed income, as a proof point of that, we had a \$0.5 billion global credit win in the third quarter in publics. That's definitely demonstrating that we can also play on the global bond transition. Then finally, given the growth of our ETF franchise, we have additional ways to participate in the fixed income flows from different channels.

I'm very pleased that as of October, our ETF platform exceeded \$10 billion.

And right now the run rate flows on a monthly basis typically exceeds \$250 million, and we had multiple more than eight ETFs in the third quarter that delivered more than \$50 million in net flows.

So overall, I feel, given we have a relatively modest market share in many of these client segments with new vehicles, with the broad platform, we have a long way to achieve further upside.

Seth Bernstein^ I guess just the final point. The long-term performance is quite strong for those services. Yes. We feel good with where we are.

I hope that answers your question.

Daniel Fannon^ Then, Tom, just a question on expenses, just given the outperformance on the non-comp year-to-date.

Can you just talk about what's been the biggest variance between the initial guidance you gave to start the year and where we sit today going into the fourth quarter?

Thomas Simeone^ Yes.

It was really driven largely by the events of April and Q2.

So we took on a couple of cost containment initiatives in Q2, and then the businesses have been delivering on those savings ever since.

Operator^ Our next question comes from John Dunn from Evercore.

John Dunn^ You guys mentioned some area of equities like structured equities, strategic core, thematic.

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Can you kind of highlight the profile of the investors who are putting money to work there?

Onur Erzan^ Sure, John.

Onur again. Yes, let me comment on that.

In terms of the structured equity, it is large Asian institutional.

In terms of thematic products, healthcare has been more Europe, large European high net worth.

In terms of some of the thematic product like security of the future, we have a strong partnership with a large global private bank that has been the driver of that.

So pretty global.

It's well balanced between institutional and retail and geographically.

John Dunn^ Then maybe just on the pipeline, like the outlook for getting it back to closer to where it had been last quarter and then the composition as well?

Onur Erzan^ Sure. Yes. Sure.

Look, at the end, I mean pipeline -- I mean the good news is we have been deploying at very fast speed. Eventually, you want to deploy so you can start generating revenue and assets.

We are very pleased that we are deploying.

Although on a net basis, the pipeline came down given the deployments and the RGA dynamics, but ultimately, we added \$3 billion to the pipeline.

It has been a strong quarter from that perspective.

The other thing to highlight is we don't basically get full credit for leverage on different products, which are fee earning.

Some of our competitors get credit on that leverage including net flows, etc., so I wouldn't also ignore the fact that we have \$15 billion dry powder including leverage in our private credit platform. That will also continue to flow in, and that's greater than our pipeline numbers. All in all, it's hard to promise a specific pipeline number.

We are focused on deploying capital, generating revenue fast, and we are on track also with the build-out of our private credit platform, given we are almost at \$80 billion relative to our \$90 billion to \$100 billion '27 goal.

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Seth Bernstein^ I would just add that FCA is not included in that pipeline yet.

We continue to see good search activity.

But I would just also remind everybody that when we win some of these larger customized retirement solutions, they tend to be quite lumpy in the way that they impact the pipeline. They're hard to predict, but there is activity in that space.

Operator^ Our next question comes from Benjamin Budish from Barclays.

Benjamin Budish^ Maybe just first on the private markets fees, you spent some time talking about what's going on in the public side. Curious on the private side, in the slides, you always emphasize that the majority comes from AB PCI.

I would think that should be somewhat more predictable. Just curious what else -- I think the guidance came up a little over \$10 million for the full year. Just curious what else changed on the private side?

And could you maybe touch on the sort of sensitivity to rates? I would assume a lot of that is floating rate debt. Just curious if you could frame that up?

Thomas Simeone^ Yes, Ben, it's Tom.

I agree, PCI is very stable and dependable, consistent performer.

We get to crystallize those as we go throughout the year each quarter.

Some of the other products don't crystallize until year-end, so they've got a little bit more variability to it.

During the year, we've also got some performance fees.

I'm just trying to see if -- yes, we've got some performance fees in commercial real estate and CarVal in our forecast as well Ben.

Benjamin Budish^ Maybe just following up on a separate topic, the target date discussion from earlier. Just curious if you could unpack a little bit for the partners where you are allocating to private and custom funds, what do the allocations look like? What are the fee rate implications? And are there any -- are they custom enough such that they're not good read-throughs to what we might see as this market opens up more broadly? Or do you think that perhaps those are good indicators?

I appreciate any thoughts there.

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Onur Erzan^ Sure.

Let me take that, Onur here.

In terms of our experience in DC and coming up with custom solutions, that goes back more than a decade including the lifetime income solutions, so we have deep experience structuring these solutions including also alternatives into the glide paths.

We have been doing that for a long time both in the U.S. as well as overseas, particularly U.K.

Obviously the executive order on private alts in D.C. creates some momentum, at least in terms of the talk track.

I mean our experience is typically, D.C. market moves slowly given the litigation risk that is still high on the minds of the sponsors. Hence, although that's definitely a structural trend, and we will definitely see more alternative assets in DC plans, I expect two things.

One, I think it will start with more custom solutions like managed accounts, et cetera, as opposed to some of the existing large target date funds, which are in commingled vehicles. That will be my prediction.

Number two, in terms of the fees, given the pending litigation risk on the minds of the sponsors, there's going to be continued fee sensitivity in addition to the usual fee sensitivity of the institutional investors and the DC investors. Hence, some of these alternatives products might not have the same fee levels as you see in some other channels. Definitely, it's going to be lower fee than the retail vehicles. Then in many cases, it might be even lower than some of the defined benefit plans. That's how I think about it.

That being said, in terms of our positioning, with \$100-plus billion of custom retirement solutions including lifetime income, we are one of the biggest providers of custom solutions in the DC market globally.

We definitely have a lot of ongoing partnership conversations as well.

As the market develops, we're going to be definitely in the front seat, and we're going to be benefiting from that.

We are not taking any credit in our forecast in terms of any major flows coming from DC alts. Hopefully, that will be an upside if the market moves faster than I predicted.

Seth Bernstein^ I would just add that to Onur's point that it's going to take time for this to mature given the caution and the process, but it's not unreasonable to think that privates could be

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10% of these portfolios over time in composition. Private credit will play a big part of that. Again, it's going to take -- we're still in the very early days of this evolution.

I think you're going to continue to see more activity over time.

Operator^ We have time for one last question.

Our last question will come from Bill Katz from TD Cowen.

William Katz^ I was wondering if you could unpack a little bit some of the success you're having in the private wealth side of the equation and just remind us of what the rate sensitivity is on cash.

Onur Erzan^ Sure. Thanks for the question, Bill. Yes, on the success of the business, we had a strong third quarter in terms of annualized net new assets. growth, 7-plus percent in terms of net flows, if I use the asset management metric, 3.5% annualized, so definitely very strong.

What I like about that is it's driven by both record run rate productivity from the adviser side, uptick in sales as a result as well as reduction in outflows.

It's a very healthy picture.

I mean at the end of the day, there will be always quarter-to-quarter volatility, but I'm happy with the direction of our business.

In terms of the sensitivity to rates, we have very, very little sensitivity to rates in our private wealth business when it comes to cash economics. The cash economics is less than 5% of the total revenue and earnings contribution is modest. The good thing is since we are self-funding our margin with the cash balances, we have a locked-in spread between what we pay versus what we earn.

As a result, our sensitivity to absolute fee levels is very low, particularly when the rates remain positive, and I think it will remain positive for the -- at least foreseeable future. All-in-all, it's a nonevent for our business.

We are much more protected on that dimension relative to some other broker-dealer that is an economic or business model highly dependent on the spread income.

Operator^ There are no further questions at this time. Mr. Jorgali, I turn the call back over to you.

Ioanis Jorgali^ Thank you all very much for attending our call today.

We look forward to connecting with you.

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Please don't hesitate to reach out.