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AB.N - Q2 2025 AllianceBernstein Holding LP Earnings Call

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PRESENTATION

Operator

Thank you for standing by and welcome to the AllianceBernstein second quarter 2025 earnings review. (Operator Instructions) As a reminder, this conference is being recorded and will be available for replay on our website shortly after the conclusion of this call.

I would now like to turn the conference over to your host for this call, Head of Investor Relations for AllianceBernstein, Mr. Ioanis Jorgali. Please go ahead.

Ioanis Jorgali - *AllianceBernstein Holding LP - Head, Investor Relations*

Good morning, everyone and welcome to our second 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'll present today is forward-looking and subject to certain SEC rules and regulations regarding disclosure. So I would like to point out the safe harbor language on slide 2 of our presentation. You can also find our safe harbor language in the MD&A of our 10-Q which we filed this morning.

We base our distribution to unit holders 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.

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

Good morning and thank you for joining us today. During the second quarter, investors grappled with concerns about escalating geopolitical tensions, policy uncertainty, and debt sustainability. Sentiment improved as trade tensions eased and risk assets ultimately delivered solid returns for the period.

AB ended the quarter with record assets under management of $829 billion which provides a helpful tailwind as we started the second half of the year.

On slide 3, I'll review key business highlights for the quarter. As I noted, firmwide assets under management reached a post-financial crisis high of $829 billion. Private Wealth represents 17% of our assets and 35% of our base management fees as of the second quarter. Approximately 10% of our $685 billion asset management business consists of permanent capital managed for Equitable.

While market turbulence can impact short-term flows, it doesn't impact our connectivity with clients. Our pipeline AUM reached nearly $22 billion, reflecting sizable mandate additions across retirement, insurance asset management, and passive equities. We are making good progress in accessing long duration capital pools that we can rapidly scale, leveraging our partnership with Equitable and our differentiated distribution and investment capabilities.

These include insurance asset management, alternatives and retirement, where we've consistently gained market share, including in the second quarter of 2025. However, we did see pressure on firm-wide net flows which turned negative in the second quarter with active strategies shedding $4.8 billion.

The outflows were largely concentrated in April during the height of the recent market volatility, and we observed steady improvement as this turbulence subsided, with June flows turning positive. Active equity shed $6 billion firm wide, primarily led by retail. Client redemptions were broad-based across strategies, although we did see slight inflows into our active ETFs, thematic and international strategies.

After six consecutive quarters of organic growth, active fixed income experienced slight outflows. The downturn in overseas demand for our marquee income strategies resulted in 1.5 billion of firmwide taxable outflows, which were largely offset by continued growth within our tax-exempt franchise, which generated 1.2 billion of inflows. Our industry-leading retail Muni platform continues to deliver impressive market share gains, growing organically at 14% annualized in the second quarter.

Alternatives multi-asset inflows totaled $1.6 billion, largely driven by strong deployments into our newly established private placements ABS strategy, our US real estate debt platform, CLOs, mortgages and middle market lending. Our private markets platform reached $77 billion in fee paying and net fee eligible AUM for quarter end, growing 20% year-over-year. We're focused on delivering consistent and profitable growth supported by scale gains, improved operating leverage and a durable fee rate.

Our diversified asset mix, coupled with our enhanced operational efficiency, provides downside protection to our revenue base and margins while we retain upside leverage to favorable markets. We're on track to deliver a 33% operating margin in 2025, assuming flat markets versus the fourth quarter of 2024. This will put us above the midpoint of our 2027 margin range target of 30% to 35%, two years ahead of schedule. We see further potential for margin expansion over time as we scale our business.

Finally, we continue to broaden our distribution coverage by expanding existing partnerships forming new ones and extending the addressable market for our differentiated investment capabilities via vehicle versatility.

Year-to-date, we've added four new general account relationships across six strategies and five new mandates across existing relationships. These relationships require high-touch client service beyond conventional asset management. We've invested significant operational resources and institutional expertise to deliver a holistic client experience that is scalable, unlocking incremental revenue opportunities beyond management fees.

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We entered the second half of 2025 with 18 active ETFs and nearly $8 billion in AUM, more than double the prior year level. The majority of our flows are coming from net new assets. Our SMA platform has surpassed $54 billion in assets under management, generating more than $700 million of inflows in the second quarter driven by Munis. We were among the industry pioneers in Tax Aware SMAs filtering strong investment outcomes for our clients and the highest standards for client service.

Moving on to slide 4, I'll highlight our strategic relationship with Equitable. Partnering with a leading insurance provider gives AllianceBernstein a competitive edge, supporting our client-focused asset-light approach. Leveraging the permanent capital commitment from Equitable helps us see then scale our higher feed, longer-dated private alternative strategies. To date, we've deployed over $15 billion of the $20 billion commitment Equitable made to AB Private Markets strategies.

The attractive yields produced by these strategies allow Equitable to offer compelling products to its policyholders, driving growth in sales and more general account assets for AB to manage. This creates a positive flywheel effect which benefits both companies. The new capabilities we've developed for Equitable such as residential mortgages and private ABS can then be commercialized and offered to other insurance and institutional clients, helping drive sustainable growth in private markets AUM. We remain on target to grow our private markets AUM to $90 billion to $100 billion by 2027, up from $77 billion today.

Slide 5 reflects a summary page of our key financial metrics, which Tom will cover shortly. Turning to slide 6. I'll review our investment performance starting with fixed income. During the second quarter, major government bond markets saw steepening yield curves amid escalating geopolitical and trade tensions. Despite the uncertain backdrop, credit markets displayed remarkable resilience, supported by high all-in yields and low net issuance.

The Bloomberg US Aggregate Index returned 1.2%, while the global aggregate returned 4.5% in the second quarter, reflecting US dollar depreciation versus major currencies. Our portfolios continue to perform well in this challenging market, particularly through curve positioning and credit selection. More than half of our fixed income assets outperformed over a one-year period, while 87% outperformed over three years and 75% over the five-year period.

Our Tax Aware Muni SMA is continuing to generate strong relative performance across all periods. Global high-yield performance has softened recently, underperforming both the benchmark and the category over the one year, largely due to underweight exposure to emerging market sovereigns. However, our 3- and 5-year relative returns remain compelling vis-a-vis the peer category.

Our American Income portfolio maintained strong absolute and relative performance in the second quarter, mainly driven by yield curve positioning. AIP is outperforming its benchmark over the 1-, 3- and 5 years while also outperforming its category over the 1- and 3-year periods for the institutional share class.

Volatility in rates in foreign exchange, coupled with concerns around unpredictable fiscal and trade policies in the United States have dampened demand for US dollar-denominated assets. While the safe heaven status of dollar dominated assets is being questioned, the US dollar remains the world's most liquid currency, supported by compelling rate differentials in the world's deepest capital markets.

Diversification is a healthy process, particularly given the severely overweight exposure to US assets. We have built a robust, all-weather platform that can help clients optimize their geographical exposures and capitalize on potential reallocation. We're already seeing increasing interest for our European income portfolio, balancing credit and duration offer a euro-denominated barbell approach. The strategy has attracted over $200 million in inflows in the second quarter and continuous outperformance its benchmark year-to-date.

Today's environment also increases potential excess return from security selection. Active systematic fixed income approaches may help investors harvest these opportunities. We continue to see increased client interest for our systematic strategies of over $1 billion in inflows in the second quarter.

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Turning to equities. Following the sharp pullback in early April, US equities quickly rebounded to new highs, with the S&P 500 rallying 10.6% in the second quarter. US equity gains remain concentrated as big techs surged with the S&P growth outperforming value by more than 15%. European and emerging markets outperformed US stocks in the first half of the year, largely driven by a weaker dollar.

Our relative performance was mostly unchanged versus prior quarter with 24% of our assets outperforming in one year and 48% over the three-year period, continuing to reflect the narrow leadership of a few mega cap companies. Our five-year performance improved with 57% of our equity AUM outperforming.

In the current environment, we maintain a proactive and disciplined approach to identifying high-quality, profitable companies with sustainable business models and significant recurring revenue streams. These defensive characteristics serve as a buffer against sudden spikes in market volatility.

Importantly, we have a diverse selection of active equity strategies with strong breadth and high-quality product offerings balanced across geographies. Examples include our highly rated international low volatility equity strategy, which was recently launched an ETF wrapper under the ticker, ILOW.

We have over 30 global international and emerging market services with established track records that have exhibited strong performance. Nearly all of them are outperforming in the respective benchmarks for composites over the 3- and 5-year periods and nearly ¾ of the retail products sitting in the top quartile or top decile of their Morningstar categories for either the 3- or 5-year periods.

This includes one of our largest retail offerings, international strategic equities, which continues to deliver alpha year-to-date and sits at the top 3% of its Morningstar category. We also launched our first active ETF in emerging markets.

We recognize the enduring appeal of US stocks, and we believe the US market will continue to offer exceptional opportunities. We're also encouraged by the increased focus on fiscal and governance standards across Europe and Asia that could potentially attract more capital to these regions. In this landscape, flexibility is important and opportunistic adjustments to regional and sector exposures is crucial to capitalize on emerging opportunities.

We're witnessing growing momentum in systematic equity strategies as institutional investors were rekindling their appreciation for this style. We won a $500 million mandate for our global core equity portfolio that utilizes fundamental stock selection combined with proprietary quantitative risk and return tools. The strategy has outperformed over the 1-, 3- and 5-year periods, delivering consistent alpha with a lower tracking error.

Finally, our private alternatives platform remains invested in delivering better outcomes for our clients. AB Private Credit Investors, our middle market corporate lending platform continues to exhibit solid long-term performance, in line with stated objectives, supported by the resilience of our invested sectors and the rigorous underwriting process.

AB CarVal's investment footprint spanning US and Europe underscores our belief in the benefits of geographic diversification for optimizing risk-adjusted returns. We're seeing increased deployment opportunities within our commercial real estate debt platform in the US and Europe as the commercial real estate market has continued to show signs of stabilization.

Now turning to slide 7. Retail flows turned negative in the second quarter as macro turbulence halted the streak of seven consecutive quarterly inflows. Active equity shed $3.7 billion across a wide range of different services. US large cap growth accounted for approximately $1.5 billion of those outflows, primarily concentrated within the United States. It's noteworthy that US large cap growth flows in Japan remained slightly positive for the quarter. Otherwise, client interest was limited to thematic, global and international strategies.

Taxable fixed income also generated $2.4 billion in outflows as demand for our more key income strategies such as American Income and Global High Yield remained weak in the second quarter. As rate volatility subsided, we observed a slight improvement in demand dynamics, particularly for AIP, where outflows decreased compared to prior quarter. Encouragingly, we are seeing constructive demand for European income strategy, which replicates our barbell approach for euro-denominated assets.

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We're also excited about our ETF driven market share gains in the taxable fixed income space within the US retail channel, where we've historically been underexposed to the asset class. We continue to gain retail market share in tax exempt for the tenth consecutive quarter, growing at a strong 14% annualized rate.

Retail Altan MAS generated $300 million in inflows in the second quarter. Our adjusted base management fees were up 6% versus prior year, while the channel fee rate was down 2% sequentially, reflective of lower daily average AUM for higher fee active equity services.

Moving on to slide 8. Excluding the impact of passive redemptions, our core active strategies generated slight inflows within the institutional channel during the second quarter. Notably, a single institutional index redemption is expected to bring in a $1 billion in net inflows over the coming quarters. The clients entrusting us to redeploy the proceeds from the redemption with incremental capital to manage in passive equities. This mandate is already reflected within our pipeline.

Institutional organic growth was primarily driven by inflows of approximately $1 billion each into taxable fixed income and alternatives. Our US investment-grade systematic fixed income strategy continues to gain strong traction with institutional clients and has received solid support from consultants recently earning an A rating from a top consultant.

Within alternatives, we continue to deploy at a healthy pace despite market volatility. Net of distributions, we put over $900 million to work across private placements, commercial real estate, asset-based finance and private credit.

Although active equity outflows continued in the second quarter, the trend continues to moderate year-over-year and sequentially. Our pipeline includes $5 billion from RGA, and we're thrilled to expand our relationship with this important partner. Note that these assets are related to the recent RGA Equitable reinsurance transaction, which we expect to result in an overall net outflow of approximately $4 billion of lower fee AUM.

Other notable wins in the second quarter included $3 billion in customized retirement and $500 million wins in third-party insurance and structured equity. Our best-in-class defined contribution platform manages nearly $100 billion in assets, including nearly $13 billion in lifetime income. The decrease in pipeline fee rate is influenced by the asset mix and the magnitude of the wins in the second quarter.

Turning to slide 9. Net flows into our private wealth channel flipped to negative weighed by seasonal tax-related selling coupled with turbulent macro conditions. As we've discussed in the past, our Private Wealth net flows exclude reinvested dividends and interest income, which is typically reported within net new assets across key wealth management peers.

On a net new assets basis, our client channel grew at a 2.6% annualized rate. Quarterly dividends and interest have ranged between $1.2 billion and $1.5 billion over the last four quarters, this is a durable and underappreciated source of growth for our private wealth asset base. Demand dynamics within the channel favored passive equities and alternatives and multi-asset. Our passive tax loss harvesting strategy eclipsed $7 billion in AUM growing organically in the second quarter at a 7% annualized rate.

We fund raised over $0.5 billion in private alternatives in the second quarter. General redemptions were primarily concentrated within active equities totaling $1 billion in outflows. Taxable and taxes fixed income posted marginal outflows.

We continue to grow our high net worth and ultra-high net worth client base underscoring the distinctive value proposition that Bernstein offers to this important client segment. Base management fees grew 5% year-over-year and declined marginally on a sequential basis.

Now, I will pass it to Tom to cover our financial results. Tom?

Tom Simeone - *AllianceBernstein Holding LP - Chief Financial Officer*

Thank you, Seth. Good morning, everyone, and thank you for joining our call. We are pleased to report strong financial performance in the second quarter, reflecting market-driven growth in asset management fees, continued expense discipline and enhanced operational leverage. Adjusted

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earnings for the second quarter came in at $0.76 per unit, representing a 7% increase compared to the prior year. Distributions in EPU grew uniformly as we distribute 100% of our adjusted earnings to unitholders.

On slide 10, 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 our 10-Q.

In the second quarter, net revenues reached $844 million, a 2% increase compared to the prior year. Base fees saw a 4% increase year-over-year. Total performance fees of $30 million decreased by $12 million from the prior year, primarily due to lower public market performance fees. 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 doubled to $8 million, while other revenues remained flat versus the prior year.

Moving to expenses. Our second quarter total expenses remained relatively flat at $571 million. Compensation and benefits expense of $419 million, which includes other compensation costs of $10 million was up 1% versus the prior year, reflecting 2% higher revenues, offset by a lower compensation ratio of 48.5% in line with our guidance and below the 49% compensation ratio in the prior year.

Given the volatile market backdrop, we will continue to accrue at a 48.5% compensation to adjusted revenue ratio in the third quarter of 2025. Compared to the prior year second quarter, promo and servicing costs were roughly flat, while G&A expenses decreased by 6%, reflecting lower occupancy costs due to the relocation of our New York City office.

Year-to-date, non-compensation expenses amounted to $293 million and are tracking better than our prior full year 2025 guidance range of $600 million to $625 million, driven by continued expense discipline and enhanced operational efficiency. Therefore, we are tightening our non-compensation expense projection to fall within $600 million to $620 million for the full year with a seasonal uptick later in 2025.

We expect promotion and servicing to make up roughly 20% to 25% of non-comp expenses with G&A accounting for 75% to 80%. Second quarter interest on borrowings decreased by $3 million versus the prior year due to lower cost of debt and lower debt balances following repayments we made using the proceeds from the Bernstein joint venture and the private unit issuance.

It Is important to note that we plan to utilize the additional debt capacity in the future to support our commitment to the Ruby Re sidecar and capitalize on potential growth opportunities that may arise. ABLP's effective tax rate was 6.7% in the second quarter, in line with our full year guidance of 6% to 7%.

Turning to slide 11. Allow me to walk through the trajectory of our firm-wide base fee rate, net of distribution expenses. In the second quarter of 2025, our firm-wide fee rate decreased to 38.7 basis points. down versus the prior quarter and the prior year. The decline was primarily driven by a mix shift in AUM and flows.

During periods of market volatility, the simple average AUM may not accurately reflect the daily asset-based fluctuations of individual funds. For example, despite the strong recovery in the US equity markets, the average daily NAV for key services like US Large Cap growth was lower in the second quarter of 2025 compared to the prior quarter.

Consequently, our base fee growth lagged the market appreciation of the underlying assets. Flow dynamics also had a negative impact on the fee rate in the second quarter due to outflows from higher fee retail services, coupled with organic growth in lower fee categories such as SMAs, ETFs, insurance, asset management and retirement. We continue to see good momentum in these secularly growing long-duration capital pools as we leverage our partnership with Equitable and our differentiated distribution capabilities.

We are excited about the value proposition for our clients and shareholders from these scalable long-duration assets, and we prioritize sustainable organic growth and long-term profitability over focusing solely on the fee rate.

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Over the past five years, our fee rate has remained relatively stable in the 39 basis points to 40 basis point range as our regional sales mix and strategic growth initiatives have helped to mitigate industry-wide fee erosion. Looking forward, we expect the fee rate trajectory will continue to reflect the mix of organic growth and market movements, which have been more supportive in early 3Q.

Slide 12 offers a breakdown of our performance fees across private and public strategies. Second quarter performance-related fees from our private market strategies totaled $22 million, showcasing consistent alpha generation from our middle market lending platform. Additionally, public strategies contributed $8 million, predominantly fueled by our top-rated US select long/short portfolio, which has demonstrated resilience and outperformance across market cycles.

We now project total performance fees for 2025 of $110 million to $130 million, up from our prior estimate of $90 million to $105 million. This upward revision is primarily driven by the flow-through of slight upside in public markets and the more active deployment outlook for our commercial real estate debt platform.

Assuming flat markets, we view the lower end of our guidance as a floor rather than a ceiling, although we caution that last year's upside was largely driven by public alternatives and the robust equity market performance. For the remainder of the year, we expect our private alternative strategies will be the primary contributors to our performance fees as they have been in recent years.

These strategies include commercial real estate debt, CarVal and middle market lending also known as AB Private Credit Investors, or AB PCI, which is the largest contributor.

Turning to slide 13. Despite slightly lower average AUM in the first half of 2025 versus 4Q '24 coupled with a negative mix shift, our year-to-date operating margin remains in line with 33% expectation. We continue to view 33% as a reasonable baseline for our full year 2025 operating margins, assuming stable market conditions. Focusing on this quarter, the adjusted operating margin of 32.3% was up 150 basis points versus the prior year, reflective of lower real estate expenses since our move to Hudson Yards.

We will remain disciplined on expenses while also investing in growth to generate long-term value for our unitholders. Targeted growth investments may include onboarding new investment teams and launching new products, which we expect to drive future growth and profits.

Before we proceed to the Q&A session, I want to express my sincere appreciation to all my colleagues for their significant contributions. We are steadfast in our commitment to efficiently allocate capital, create value for our clients, investors, employees and stakeholders, while simultaneously diversifying and expanding our business.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Craig Siegenthaler, Bank of America.

Unidentified Participant

This is [Ivory] on for Craig. With Pacific Life insurer now joining your multi-insurer lifetime income platform, how are you thinking about scaling your retirement income business more broadly? And how should we think about AV share of economics on the retirement income platform? Is this more of a pass-through structure?

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Onur Erzan - *AllianceBernstein Holding LP - Head of Global Client Group and Private Wealth*

Thanks for the question. Let me answer it in a couple of different ways. And one is, as we highlighted in our earnings announcement and call, insurance segment is very critical for us, and we continue to expand our engagement and deepening of the insurance segment in many different aspects of the business and lifetime income is one of those.

We are one of the pioneers in lifetime income. Obviously, we have seen an uptick in interest in lifetime income solutions given the demographics, aging of baby boomers as well as some of the Secure Act 2.0 kind of dynamics. So there's no material change in our product structure. We continue to add insurers and some insurers drop off. So that's a bit of the backdrop on the Pac Life announcement, but we're excited about our relationship with them and ability to do more over time.

In terms of the economics on these products, ultimately, we continue to focus on delivering the guaranteed income for our clients. So although these can be relatively sizable mandates, they tend to be lower fee from an asset management perspective while some of the economics, obviously, accrue to the insurers based on their liability structure.

And then finally, we continue to work on different lifetime income solutions, both with our main shareholder equitable and as well as other third-party insurers. Over time, we might come to the market with different fee economics that could be even more accretive to our overall top line.

Unidentified Participant

And just as a quick follow-up, following the amended exchange agreement with Equitable, can you clarify how we should think about the likelihood of further exchanges into AllianceBernstein holding units?

Onur Erzan - *AllianceBernstein Holding LP - Head of Global Client Group and Private Wealth*

Sure. Let me start and Tom and Seth Bernstein, can add. Look, the actual conversion from public units to private units is really driven by a more beneficial tax treatment for the private units. So it really has no bearing on the daily trading volume or anything else. And it has been something that has been done before. So there's nothing unusual about it. Tom, do you have anything you want to add?

Tom Simeone - *AllianceBernstein Holding LP - Chief Financial Officer*

Yes. I guess the only thing I'd add there is, I'd remind everybody that this brings everybody equitable back to similar to what they had pre-2022 before the CarVal acquisition.

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

You mean in terms of their total holdings.

Tom Simeone - *AllianceBernstein Holding LP - Chief Financial Officer*

Yes.

Operator

Alex Blostein, Goldman Sachs.

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Unidentified Participant

This is Anthony on for Alex. I wanted to hit on the capital allocation strategy. There were some recent headlines on maybe potential M&A. So if you could speak to your willingness to go down that route and what that would look like.

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

Anthony, it's Seth. Just sorry, with regard to the optimization of capital that Tom was referring to or with respect to our investment M&A -- just wanted to clarify.

Unidentified Participant

M&A.

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

Okay. Sorry. Yes. So look, we continue to look at a number of opportunities, whether it's insurance sidecars or other forms of partnerships with key insured clients around the world. And it's been pretty active. And we think that we have an opportunity, particularly if we can utilize Equitable's underwriting skills and analyzing those risks to actually utilize our capital, potentially Equitable's capital or a combination of the two to realize incremental flows into our key private alternative strategies.

And so there is obviously a limit. We don't want to become an asset heavy or capital-heavy type of entity, and we would raise the money through issuance of units to fund that as a general proposition just as we did in the case of Ruby Re. So I don't think it will ever be a material amount of money on our balance sheet and we are going to watch it very closely. But we do think it's a competitive edge we have, particularly with Equitable's underwriting skills that we want to take advantage of. Onur, if there's anything you want to add?

Onur Erzan - *AllianceBernstein Holding LP - Head of Global Client Group and Private Wealth*

Yes, one minor add and one additional extension. These sidecar investments, obviously, we have been looking at it for multiple years and looking at the return profile. These tend to generate low to mid-teen kind of ROE. So they're also attractive on a stand-alone basis and any economics we get on the investment management side is accretive or additive to that ROE. So we really like the ROE profile, number one.

Number two, I think some of the, obviously, the press has been around our active posture in wealth management. That shouldn't be new news, if you will, going back to previous earnings calls and other market communication. We are always active in the wealth management space. We like wealth management. We have an at-scale platform in terms of independent platforms with $150 billion. And we have been in this business for a long time, and we believe we do a good job of serving our clients and growing our business.

The way we think about M&A is an enabler. It's not a hammer looking for the nail. We are not a private equity-backed roll-up. But we believe we have operating leverage in our business and scalability in private wealth. And as a result, we can easily double, triple our adviser headcounts.

We organically continue to hire advisers in attractive geographies and segments. We will continue to add experienced advisers and teams and in certain cases, adding a small to midsized business might be a faster path to getting that expanded growth.

That being said, we're always very selective from a culture perspective, from a platform perspective as well as our financial discipline. But the good news is we are getting a lot of inbounds and this is true both for insurance transactions as well as wealth management transactions.

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

And just to add, I guess, Alex, it's important that Onur made the point about small to midsize because we're very cognizant of the prices for these kinds of businesses. So we need to be careful.

Operator

Bill Katz, TD Cowen.

Bill Katz - *Cowen and Company LLC - Analyst*

Maybe just coming back to the margin discussion for a moment. I appreciate the affirmation of the 33% guide. It does look like either on a end-of-period number now, even think through the averages that you're running a bit ahead of where you were at the end of the year.

So maybe a two-part question. How do you think about the incremental margin as we look out to the second half of the year? And since you're already running at the midpoint of the '27 guidance, how do we think about the trajectory into '26 and beyond?

Tom Simeone - *AllianceBernstein Holding LP - Chief Financial Officer*

Bill, thank you for the question. I think we're now at a 33% margin on a year-to-date basis, and that's what we're hoping for planning and forecasting for the second half of the year just as we noted in our guidance here. So I think it's going to be equal 33% first half, 33% in the second half. And then as far as our guidance into 2026, we would plan to be -- you know what, we're not prepared to answer that just yet. We haven't done the 2026 forecasting yet. And we'll provide that information possibly at the end of the year.

Bill Katz - *Cowen and Company LLC - Analyst*

Okay. And then maybe one for Onur or Seth. I'm just curious, since you're generating significant incremental yield or cash flows through the financial advisers, but not sort of disclosing it in a way that's sort of comparable to what your peers do. What's the holdback to sort of shifting the organic growth calculation, part one?

And then part two, just in terms of you mentioned you could scale up 2x to 3x in terms of financial advisers. Is that just on the existing book of the platform, if you will? And then seems to be a lot of pressure we're hearing from some of your peers around private equity sponsored players for recruitment. Could you speak a little bit about what you're seeing in terms of transition assistance as you think about scaling beyond your sort of de novo focus?

Onur Erzan - *AllianceBernstein Holding LP - Head of Global Client Group and Private Wealth*

Sure. Thanks for the question, Bill. So yes, let me answer those questions. Number one, why do we talk about net new client assets in addition to net flows. It's very simple. We have a wealth management business that's comparable to other pure wealth management players or wealth managers embedded in larger institutions.

We wanted to make sure we make the life easy for analysts and other buy-side community to be able to make apples-to-apples comparisons between our growth rate and most of the wealth management industry works on net new client assets versus the asset management metric of net flows. So that's the reason why we wanted to provide that information. There is no catalyst other than ongoing improvements in terms of how we represent the key metrics in our business.

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In terms of like my point around doubling or tripling the adviser, my point is, given we have been in this business for a long time, given we have a very established infrastructure. We have our own custody and clearing. We have a robust investment organization, manager selection capabilities, direct indexing, et cetera, et cetera. For us, it's pretty straightforward to add new advisers to our platform. It doesn't require massive improvements to our platform to add new advisers or sales points, if you will. So that was my key point around that.

And in terms of our transition support in a highly competitive industry relative to private equity back platforms, et cetera. Again, we have been bringing over advisers to our business for decades. We have strong transition capabilities, both in the technology team as well as in the investment team.

So if you think about it, our private wealth business has 1,000 employees. So it's a very well established platform compared to some of the RIAs and in terms of our scale, probably we compare very well against even the very largest IRA. So I believe we can compete head-to-head. Not to mention, we have the benefits, the balance sheet, the backing of a larger public entity AllianceBernstein with also the global infrastructure behind it.

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

But we take your point around the notion around net new assets because, look, it's clear we have $1 billion to $1.5 billion a quarter that sits there that we don't in the net flows calculation doesn't get reflected. But given that we're an asset manager, principally, that's how we've been reporting. So that's why we tried to give you more color.

Onur Erzan - *AllianceBernstein Holding LP - Head of Global Client Group and Private Wealth*

Yeah. Exactly. It's maybe not very different than some other peers. Franklin talks about both as an example as well.

Operator

John Dunn, Evercore ISI.

John Dunn - *Evercore Inc - Equity Analyst*

Thank you. It was a nice increase in the institutional pipeline. How do you look at kind of the timing of that funding? Are the new mandates you just added going to take a while to flow through?

Onur Erzan - *AllianceBernstein Holding LP - Head of Global Client Group and Private Wealth*

Onur, again, let me take that. I mean, look, at the end, typically it takes -- depending on the asset class. I mean blended, it takes 12- to 15 months to deploy. In general, obviously, it's longer for some private assets and much shorter for public.

I think you're going to have a little bit of an accelerated timeline this time around, given the RGA transaction, its impact it will have on us as Seth mentioned in his opening remarks. So there's going to be probably a bit of a higher velocity this time given the unique composition of the pipeline, but that's kind of how we think about it.

And we continue to see also strong commercial activity, as also Seth mentioned. We have been advancing on a couple of strategic insurance relationships that might -- that has the potential to add meaningfully to our Alts pipeline as well. If that happens, although on average, it's a good thing as you recognize strategic partnerships and private Alts that might be a little bit of a longer deployment cycle as well. But that's the picture.

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John Dunn - *Evercore Inc - Equity Analyst*

Got it. And then just because it's such an important driver of flows. Can you talk about some of the drivers of demand for American Income and the outlook for continued improvement over the rest of the year?

Onur Erzan - *AllianceBernstein Holding LP - Head of Global Client Group and Private Wealth*

Sure, yes, I mean, in the second quarter, things got a little tougher with the Liberation Day, uncertainty, tariffs and impact on the rate outlook and the dollar, right. So at the end of the day, American income, by definition, has a strong US dollar exposure and treasury exposure. As a result, we were a little bit in the middle of that.

We have seen normalization starting in June and then that continues in July. So we have seen positive days in July, just to give you a little bit of -- I mean one day doesn't make a trend, and I don't want you to extrapolate that. But ultimately, we see definitely great signs of stabilization.

But it's a cyclical product. We have seen this over time. When the rate outlook is stable, when you have healthy upward sloping yield curve, et cetera, there are times from a macro perspective. AIP does very well when the duration is in demand. And in other environments, it pulls back and it pulls back the assets pulled back quite fast as well. So we are not structurally concerned, but we recognize a cyclical product.

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

I guess I would add that as a consequence of the tariff announcements, the dollar weakened pretty significantly, particularly in Asia, and that obviously hit us. But I have to say, it does seem to have stabilized and normalized, and we are seeing more positive days with the caveat that owner had provided.

I'd also say we're seeing better flow activity domestically in fixed income as well. so that -- in retail. So that has been helpful. And we are seeing more institutional focus in the fixed income and even in the equity space.

So look, the really pronounced low volatility of markets is interesting given the underlying uncertainties, but it certainly seeming to moving people to be deploying more than they had been 6-, 8 weeks ago. So I don't -- these are sort of insights that could change with changing policy announcements, but that's where I think we are now.

Operator

Benjamin Budish, Barclays.

Benjamin Budish - *Barclays Services Corp - Analyst*

You've talked about the wealth business and sort of adding new advisers over the years. I was wondering if you could talk more specifically about some of the more recent news about seeking more inorganic growth opportunities in that channel.

Just curious if you can comment on why now, what's changing? And what are your broader ambitions? It seems like this is a focus on the ultra-high net worth channel. Any other color there? And given we see a lot of other wealth managers that compete in this way, there's a little bit of a different level of capital intensity given TA payments and things like that. How do you think about the sort of capital needs of these ambitions.

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Onur Erzan - *AllianceBernstein Holding LP - Head of Global Client Group and Private Wealth*

Yes, sure. Yes. First of all, again, although the press coverage might have increased our intentions or what we talked about is not new. Again, we talked about it, I think, over the last 2-, 3 years. In terms of our adviser growth, we typically target mid-single-digit adviser growth every year from an organic perspective. Year-to-date, we are tracking towards that. So that's healthy.

In terms of the inorganic stuff. As I mentioned, it's -- we are not trying to hit a target. We don't have a number of acquisitions to make, AUM, GAAP or anything like that. If we had a target, we would have shared it. So as a result, this is more an extension of our strategy and an enabler of our strategy. So M&A by itself is not our strategy.

In terms of what we typically look at, we continue to look at more on the -- as Seth also emphasized, small to midsize RA space. And what we have seen in the marketplace is actually there is a little bit of a change in the multiple -- a pretty significant change in the multiple, if you go to the, for instance, the 5-plus billion AUM range.

The reason is there's a scarcity value, particularly for the private equity platforms as they get bigger, they are looking for larger acquisitions to get there faster, given their exit time lines and all that. We don't have those kind of pressures in our business. We are more permanent capital. We are not looking to buy and sell. So as a result, we have the ability to be patient. We have the ability to look at a lower size RAs that are in our target markets.

Yes, [ultra] net worth would be one focus area. It's not the only focus area. There are other interesting verticals, if you will, we like, for instance, the entertainers that needs business owners, global families, family office. So there are different flavors of these. So we like platforms either that adds more geographical breadth to our business or more specialized capabilities, either in terms of client access or underlying expertise.

Again, let me remind you, we only have 20 locations. I mean private wealth is both national business but also a local business. So there's a -- that's the reason for looking for additional hires teams and businesses as they become available at the right price in new jurisdictions.

Operator

Bill Katz, TD Cowen.

Bill Katz - *Cowen and Company LLC - Analyst*

Just thinking just strategically now, to the extent that you continue to scale up your alternative platform and performance fees become a larger percentage of the overall revenue pie, how should we think about the comp ratio in particular? Is there any leverage to the platform? Or conversely, the payouts on performance fees a little bit higher than the sort of the overall rate?

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

Well, let me start, and Tom may jump in, Bill. But first of all, most of our credit focus isn't performance fee-driven, just by the nature of what we're doing with higher credit quality pieces going to the insurance marketplace. There is a performance fee element and I suspect that will continue. And as you know, we also have it on the public equity side as well.

But your inclination that the rev share on performance fees tends to be more favorable to the team than the underlying base fees, if that were to happen. But it's just not that huge a number for us. So I do think that there is leverage in the system as we get larger and private Alts. But Tom, why don't you pipe in?

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Tom Simeone - *AllianceBernstein Holding LP - Chief Financial Officer*

Yes. No, I agree with everything you had just said, Seth. Obviously, as we talk about the compensation ratio, we continue to measure what we need to pay our people competitively and evaluate that against our revenues, and we'll continue to do so, whether it's base fees or performance fees.

Operator

Dan Fannon, Jefferies.

Daniel Fannon - *Jefferies LLC - Equity Analyst*

Just a question on gross sales. No surprise given some of the turbulence early in the quarter that gross sales slowed. But just as you think about kind of what's happened as the quarter progressed, and as we are sitting here in July. From a gross sales perspective, do you see that more as 2Q dip more as temporary? Or are we seeing kind of more momentum on a go-forward basis?

Onur Erzan - *AllianceBernstein Holding LP - Head of Global Client Group and Private Wealth*

Yes. So actually, year-to-date, our sales is I think up in the asset management side, 1%. So again, I'm not overly concerned about the sales trends, and we eat net-net growth. If you look at the redemptions for instance, on the institutional side, our redemption rate came down as well. So as a result, although it's an important metric in terms of momentum in the business. I mean I look at both growth and outflows. And I'm also quite happy with some of the improvement in the redemptions we had in the institutional channel.

I think we probably, as I mentioned a little bit in the context of AIP in my previous comments. We hit a little bit air pockets maybe particularly for a 6- to 8-week time frame, early April to mid to late May Memorial Day. We definitely have seen some signs of momentum starting in June and July is a continuation.

So as a result, I remain relatively optimistic and bullish about our ability to growing our flagship strategies and expanding into new areas, and we definitely see a lot of opportunities, as I mentioned, in insurance. Our ETF platform continues to scale. I will remind us that -- in the ETF business, there's a little of a J curve when you launch a new product. Typically it takes a while for the product to mature to an AUM level, et cetera, or age to be put in major platforms.

So we'll see some of the tailwind benefit of ETFs are monthly sales volumes on ETFs continues to grow exponentially, and we have the ability to expand in ETFs as another growth area like the new Taiwan ETF, which opens a completely new geography for us.

So all in all, it's hard to predict exact sales volumes, and there's definitely some remaining uncertainty in terms of geopolitics, tariffs, policy, et cetera. So there could be definitely some continued sloppiness in sales, but I'm also optimistic that we have new ways to win or additional ways to generate business in terms of different distribution channels, different vehicles. And again, I focus on net. So it's both a retention game as well as a sales game.

Operator

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

Ioanis Jorgali - *AllianceBernstein Holding LP - Head, Investor Relations*

Thank you, Jean-Louis. Thank you, everyone, for participating today. If you have any questions, please reach out to Investor Relations. We look forward to hearing back from you. Bye-bye.

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