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AB.N - Q3 2021 AllianceBernstein Holding LP Earnings Call

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PRESENTATION

Operator

Thank you for standing by, and welcome to the AllianceBernstein Third Quarter 2021 Earnings Review. (Operator Instructions) As a reminder, this conference is being recorded and will be available for replay for 2 weeks.

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

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

Thank you, Misty. Good morning, everyone, and welcome to our third quarter 2021 earnings review. This conference call is being webcast and accompanied by a slide presentation that's posted in the Investor Relations site of our website, www.alliancebernstein.com.

With us today to discuss the company's results for the quarter are Seth Bernstein, our President and CEO; Ajai Kaul, Senior Vice President and CEO of Asia Pacific; and Ali Dibadj, CFO and Head of Strategy; Kate Burke, COO, will join us for questions after our prepared remarks.

Some of the information we'll present today is forward-looking and subject to certain SEC rules and regulations regarding disclosure. So I'd like to point out the safe harbor language on Slide 2 of our presentation. You can also find our safe harbor language in the MD&A of our third quarter 10-Q, which we filed earlier this morning.

Under Regulation FD, management may only address questions of material nature from the investment community in a public forum. So please ask all such questions during this call. Now I'll turn it over to Seth.

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

Good morning, and thank you for joining us today. In the third quarter, we grew organically across all three channels with the fourth time in the last 5 quarters. Our geographically diversified and differentiated client-focused offerings continue to resonate globally with clients and intermediaries. Firm-wide active equities have now grown organically for 8 quarters in a row. Municipals, once again, grew organically by more than 20%. Our investment performance strengthened across both equities and fixed income, while our broadening institutional pipeline grew its annual fee base to nearly $60 million.

For the quarter, we posted annualized organic revenue growth of 5%, including a 1% year-over-year fee rate improvement and expanded our adjusted operating margin to 31.8%. Further, we delivered 29% growth in both adjusted earnings per unit and distributions to unitholders.

Let's get into the specifics, starting with a firm-wide overview on Slide 4. Gross sales were $32.3 billion or up $3 billion or 10% from a year ago and down 11% from the second quarter, net of last quarter's Venerable transaction. Firm-wide active net inflows were $6.7 billion, a 4% annualized organic growth rate. Quarter end assets under management of $742 billion rose 18% year-over-year and 1% from the prior quarter, an average AUM of $747 billion increased 20% year-over-year and 3% sequentially.

Slide 5 shows our quarterly flow trend by channel. Firm-wide, third quarter net -- total net inflows of $7.2 billion represented a 4% annualized organic growth rate. Net flows were positive in each channel for the fourth quarter of the last 5. Retail generated its strongest gross sales ever with net inflows of $6.6 billion, driven by active equities and continued strength in munis, which once again offset moderating sequential outflows in taxable fixed income. Institutional sales of $2.6 billion less than net inflows of $200 million of fixed income and multi-asset group. In Private Wealth, gross sales increased 15% over both prior periods with net inflows of $500 million as we grew our ultra-high net worth business supported by our focus on helping these clients with pre-liquidity event planning.

Investment performance is shown on Slide 6. Starting with fixed income. In the third quarter, yields bottomed and began to rise on tapering discussions and higher inflation trends. We continue to position our multi-sector fixed income portfolios for periods of solid growth and also higher inflation by being underweight duration and overweight credit. Our fixed income performance improved on already strong levels that 92% of our fixed income assets outperformed over the 1-year period and 70% of assets outperformed over the 3- and 5-year period.

We continue to see outstanding relative performance in tax exempts. Six of our 10 retail municipal funds were in the top decile of their Morningstar peer group across all periods and all 10 were in the top quartile across all periods. Our tax-aware vehicles, including SMA, grew by 20% organically.

Turning to equities. Global equities rose through most of the third quarter but gave up most of their gains in a volatile September. In developed equity markets, style leadership shifted from value stocks towards growth through August and back again towards the quarter end. In equities or percentage of assets outperforming strengthened, improving to 76% for the 1-year period and 78% for the 3-year period and 70% for the 5-year period. The improvement for the 1-year period reflects outperformance by our U.S. large cap growth and strategic equities portfolios, driven by our disciplined approach to diversifying portfolios at measured weights considering the still high level of U.S. market concentration in high-growth mega cap companies.

Now I'd like to review our client channels, beginning with retail on Slide 7. Third quarter gross sales were a record $25.6 billion, up 46% year-over-year and up 7% sequentially. Net inflows of $6.6 billion were positive in each region driven by 19% annualized organic growth in equities, our 18th straight quarter of active equity inflows. U.S. large cap growth led the way among 10 different equity products that each exceeded $100 million of net flows. Once again, municipals grew by over 20% annualized and taxable fixed income outflows continue to moderate, with American income redemptions improving by $500 million versus the prior quarter.

As shown in the upper left chart, our broad, diversed product offerings across asset classes has driven consistent organic growth with retail net inflows 11 of the last 13 quarters. On a net flow basis, our U.S. equity funds rank 14th out of 451 managers. International equity funds ranked 29 out of 249 managers and munis ranked 12 of 110 managers. Several notable individual funds are shown on the bottom right, including small-cap growth, first out of 157 funds.

Turning to Institutional on Slide 8. Third quarter gross sales of $2.6 billion declined by $2.3 billion from a year ago, and we're well below the prior quarter, which included the Venerable sale. While a slowing -- while a slower funding quarter, the pipeline continues to build. Outflows moderated to a low 2.9% annualized redemption rate, resulting in net inflows of $200 million. Institutional has now posted net inflows for 5 consecutive quarters and 9 in the last 10 quarters. Taxable fixed income and alternatives drove the net inflows. In the quarter, we priced our third CLO, a $500 million offering and also secured our first third-party client for our Equitable Backed European commercial real estate debt offering.

Our ESG portfolios with purpose grew to $27 billion, up 11% sequentially, driven by our U.S. and global sustainable thematic strategies both of which not only received upgrades from a global consultancy in the quarter, but were also awarded Best Sustainable and ESG Research Team from Investment Week in the United Kingdom. We were also pleased to receive a Morningstar ESG commitment level of advanced, validating the efforts of our teams in recent years.

Our institutional pipeline grew to a record $20.6 billion at quarter end, up 16% sequentially with additions including an $800 million emerging market stat mandate and the $620 million China A shares value mandate from a prominent outsourced CIO firm. The annualized fee base reached $60 million and has grown at a 19% compound annual growth rate since we began tracking in 2011 with alternatives over half the fee base. As a reminder, this pipeline includes a $10 billion low-fee customized retirement solutions mandate that we expect will fund in the first half of 2022.

Last quarter, we informed you that the prior AXA redemption program announced in early 2020 have been completed. We, however, expect new redemptions by AXA of approximately $5 billion of low-fee retail AUM in the first half of 2022.

AXA remains a critical partner in the development of our alternatives platform, and we continue to engage in active discussions with AXA as we build out our alternatives business. As of September 30, we managed $20.6 billion for AXA or less than 3% of our AUM.

Moving to Private Wealth Management on Slide 9. Gross sales of $4.1 billion increased 15% over both prior periods with advisor productivity also improving in the mid teens. Net inflows of $500 million were positive for the fourth of the last 5 quarters. We continue to see our mix shift toward our ultra-high net worth $20 million and over clients, influenced by our pre-liquidity event planning efforts, for which the pipeline remains strong. We raised $78 million in a qualified opportunity fund focused on tax-efficient investing. Year-to-date, our alternative products are showing strong interest with assets raised having nearly doubled over the prior year. And our proprietary separately managed equity tax loss harvesting product grew by 19% sequentially, while -- sorry, while muni impact and ESG portfolios continue to grow strongly.

I'll finish our business overview with the sell side on Slide 10. Bernstein Research revenues increased by 15% year-over-year and 7% sequentially, with strong growth in both Europe and Asia. Asia trading commissions were up over 40% and India continues to ramp strongly. We're pleased that research checks continue to grow at double-digit rates, reflecting our premium research franchise. And we held our 18th annual Pan-European Strategic Decisions Conference with over 1,000 investors attending over 400 virtual meetings. We launched coverage on 3 new sectors this quarter, 2 in Europe and 1 in China.

I'll close our business overview with progress toward our strategy in the third quarter on Slide 11. Our investment performance strengthened with 70% or more equity and fixed income assets outperforming each of the 1-, 3- and 5-year time periods. Our geographic and product balance has now driven organic growth across all channels in four of the last five quarters with retail positive of 11 of the last 13 quarters and institutional positive 9 of the last 10. Private Wealth grew for the fourth of the last 5 quarters with active client engagement across our growing inflation and tax aware suite. Our ESG Portfolios with Purpose now stand at $27 billion and AUM, up 11% sequentially. We priced our third CLO and we're growing at a double-digit annualized rates in municipals.

We are committed to managing our business to deliver strong incremental operating margins. Our third quarter adjusted operating margin of 31.8% was up 210 basis points year-over-year with adjusted earnings and Unitholder distributions up 29% versus the prior year period.

You may have seen our announcement last Friday that Joan Lamm-Tennant has been appointed Independent Chair of Equitable Holdings and AllianceBernstein Boards of Directors effected immediately. Joan has been a valued member of the Equitable Board since January of 2020, serving as a member of their Audit and Finance and Risk committees. Joan succeeds Ramon de Oliveira, who served as chair to the Equitable and AB Board of Directors since March of 2019 when Equitable became an independent company. We are fortunate to have an outstanding leader in Joan to chair our Board. As the first women do so in AB's history, she brings significant risk and capital advisory expertise. She is also recognized thought leader in corporate social responsibility.

Now as part of our earnings spotlight series, which we'll have from time to time, I'm pleased to introduce you to Ajai Kaul, Head of AB's Asia Pacific business, who will review our Asia platform. Ajai?

Ajai Mohan Kaul - *AllianceBernstein Holding L.P. - Regional CEO for Asia Pacific*

Thank you, Seth. It's a pleasure to discuss our Asia business, a core part of AB, which is well positioned to capitalize on APAC's growth potential given the competitive advantage we have built over nearly 4 decades of operations. Today, I want to stress the following key points: Asia Pacific is a large, fast-growing region with significant growth potential as penetration of asset management increases from relatively modest levels. AllianceBernstein has a strong competitively advantaged position in APAC, having built local businesses with strong market positions over the last several decades. We have a very healthy brand, which punches well above its weight in Asia. We have a robust opportunity set ahead of us, which we are focused on executing on.

Let's start on Slide 14. Economic growth and high savings rates, are two, amongst many factors, which contribute to why asset managers are attracted to APAC. The region has historically led the world with high savings rates that have remained resilient through various economic and market events. Market-wide assets in APAC across retail and institution have grown at a 6% CAGR over the last 15 years and at a faster rate in the recent years. Importantly, the percentage of market AUM professionally managed is just 25%, low compared to the global average of almost 44%.

On Slide 15, this time line shows AB has roots in the region that go back 4 decades, an early mover advantage. Our first office was established in 1986 in Japan. And since then, we have built businesses in Australia, Singapore, Hong Kong, Taiwan, Korea and now in the process of building one in China. Strong investment performance, innovative product offerings and continued penetration of both retail and institutional channels have driven our growth. Some notable milestones include: Launching our global high income, global high-yield product in 1997, which is a flagship service across the region. In 2006, we acquired full ownership of our business in Hong Kong and were appointed in the first group of foreign managers of China's Social Security Fund for both equity and fixed income. We have introduced innovation in share classes tailored to client demand, converted JVs to wholly owned AB entities and have been willing to build onshore franchises where needed.

In the most recent Asia asset management funds manager survey, we ranked 12th out of 200 fund managers in Asia by AUM. As a result, as shown on Slide 16, our brand is widely recognized in APAC and brand matters to intermediary gatekeepers. We are very pleased that AB was ranked fourth in all of APAC in a recent study by Broadridge, punching well above our weight based on AUM. As shown on the bottom right, we're actively engaged and strong in digital and social dimensions and are focused on connecting with our customers through all media and channels.

Next on Slide 17, we discuss AB's competitively advantaged position in Asia. Today, the importance of being early and in many instances, being a first mover in APAC show. The strength of our client relationships and the fact that AB services are offered on most platforms across APAC have allowed us to build an advantaged competitive position. We've grown our fee base at a 13% annualized rate since 2016, and Asia now represents 25% of AB's annualized fee base, excluding the Bernstein Research business. As a percentage of AUM, APAC represents 18% of AB's AUM, which is 2x the U.S. and European peer group average. As you can see, Asia's fast-growing significant piece of AB's business.

Moving on to Slide 18. The scale we have built and the discipline demonstrated in achieving it provides us with strong operating leverage, contributing positively to AB's overall results. Relative to Asia peers, AB's operating margins in Asia are more than 50% higher than the peer group average, thanks to our size.

From a cost perspective, we benefit from the scale of our diversified platform as our costs are more than 50% below the peer average. This has enabled us to drive continuous improvements in productivity on a net revenue per FTE basis.

On the next slide, we show how AB's Asian platform has evolved from its core strength as a market leader in fixed income. In Taiwan, a market where income is a highly sought feature, we are a market share leader. While leading with fixed income fund, we have leveraged this brand strength to diversify our product platform into equity and multi-asset. As with our fixed income franchise, equity AUM has also been achieved across the region. Japan has grown U.S. equity market share by 3x in the past 5.5 years, AB's U.S. equity service being an AUM market leader there. Our success in growing our equity AUM extends beyond Japan to other markets in APAC as well. As a result, since 2015, we have grown our AUM at a CAGR of 10% while diversifying across asset classes, geographies and channels. Today, our AUM is better balanced between equity and fixed income, retail and institutional and across geographies. We have only strengthened our foundation and positioned ourselves for continued growth.

Finally, turning to Slide 20. While we take pride in the business we have built to date, we have multiple growth opportunities available to us in APAC. Our traditional strength in fixed income has been successfully extended into equity, but there remains significant opportunity to diversify within equity much as we have done in fixed income. This has already begun with low vol equity and sustainable equity services gaining traction as our distribution partners seek additional equity services for their platforms. Multi-asset and solutions in APAC present another significant opportunity driven by the realization that fixed income alone cannot deliver the desired returns and an increasing focus on achieving outcomes rather than outperforming benchmarks. Increasingly, we received requests for custom solutions spanning both the institutional and retail channels.

We have plenty of runway ahead of us in private bank channel, where there is consistent demand for both public and private alternatives as well as for customized solutions and responsible investment. There has literally been a doubling in registered family office from 2019 to 2020 in just Singapore. Both Singapore and Hong Kong are promoting themselves in a bid to attract this business. We expect family offices as sophisticated investors will look beyond traditional services and seek managers who can deliver differentiated, actively managed strategies, alternatives and customization while incorporating ESG in their decisions. The recognition AB is getting for our RI capabilities, our partnership with the Earth Institute at Columbia University and being a founding member of the Columbia Climate School is being well received by clients.

All of this plays well into our ability to engage institutional investors where penetration of asset management is growing, half of institutions now say they consider ESG factors and hiring managers. Innovative products, efficient product delivery and a combination of local and cross-border fund platforms, enable us to leverage our footprint. For example, the active ETF unit class launch in our Australian managed volatility equity service positioned us to gain access to the advice component of the AUD 800 billion of self-managed super funds.

AB is amongst the first group of foreign managers in China seeking an onshore fund management company license. China is the second largest asset management market in the world, and FMC license would allow us to participate in the market expected to grow at over 10% per annum. And FMC license is foundational and when eligible AB may apply for further licenses, allowing us access to other segments of this growing and underserviced asset management market.

In summary, our time-tested diversified Asian business, given the competitive advantage that continues to benefit from a flywheel of growth. AB's high brand recognition, coupled with its strong diverse product set, allows us to pursue multiple growth avenues in a dynamic market. We are tremendously excited about the opportunities looking forward. With that, I will turn it back to Ali to present the financials. Thank you.

Ali Dibadj - *AllianceBernstein Holding L.P. - CFO & Head of Strategy*

Thanks, Ajai. Let's start with the GAAP income statement on Slide 22. Third quarter GAAP net revenues of $1.1 billion increased 21% from the prior year period; operating income of $280 million increased 29%; and operating margin of 25.7% increased by 160 basis points. GAAP EPU of $0.89 in the quarter increased by 27% year-over-year. As always, I'll focus my remarks from here on our adjusted results, which remove the effect of certain items that are not considered part of our core operating business. We base our distribution to Unitholders on our adjusted results, which we provide in addition to and not as a substitute for our GAAP results. Our standard GAAP reporting and a reconciliation of GAAP to adjusted results are in our presentation's appendix, press release and 10-Q.

Our adjusted financial highlights are shown on Slide 23, which I'll touch on as we talk through the P&L shown on Slide 24. On Slide 24, beginning with revenues. Net revenues of $884 million increased 22% for the third quarter versus the same prior year period. Base fees increased 22% for the third quarter versus the prior year period, reflecting 20% higher average AUM, which grew at double-digit rates across all 3 distribution channels and a 1% higher fee rate. The third quarter fee rate of 38.8 basis points was slightly higher sequentially. We continue to believe that although our fee rate may be volatile from time to time, given large mandates such as CRS that may skew averages, the long-term trend should be grinding higher.

Third quarter performance fees of $18 million increased by $11 million versus the prior year period, driven primarily by our private middle market lending business. Third quarter revenues for Bernstein Research Services of $113 million increased by 15% from the third quarter of 2020, reflecting higher client trading activity and research payments across all regions.

Moving to adjusted expenses. All in, our total third quarter operating expenses of $603 million increased 18% year-over-year. Total compensation and benefits expense increased 22% in the third quarter due primarily to higher incentive compensation and secondarily due to higher base compensation, both of which were driven by higher revenues. As we guided to, compensation was 48% of adjusted net revenues for the third quarter flat with the prior year period. At present, given current market conditions and our current expectations for the mix of fourth quarter performance fees, we do not expect the fourth quarter comp ratio to exceed 48.0%. As a reminder, the compensation ratio is sensitive to variability in the year-end mix of performance fee eligible funds.

Promotion servicing costs increased 19% in the third quarter due primarily to higher T&E, transfer fees and higher marketing and firm meeting expenses. We expect travel and meeting-related expenses will continue to increase in the fourth quarter of 2021, though we note that business travel remains well below pre-COVID levels. All in, G&A expenses increased by 12% in the third quarter versus the same prior year period or 9%, excluding Nashville and related relocation expenses. In the quarter, we continued to invest to support the organic growth of our business where we see returns, particularly in technology-related projects that expand our ability to service and grow our customer base.

We also incurred return to office expenses as employees returned in July. That said, core inflation in G&A is now higher in the mid-single-digit range with consulting and market data services contributing to the increase. We expect fourth quarter G&A expenses to remain elevated, reflecting Nashville and related relocation expenses, growth-related technology and product development costs and inflation in market data services, technology and professional fees. We continue to see good returns as we invest for growth and are managing the spend within the context of our long-term incremental margin targets. Within other expenses, intangible amortization expenses declined by $5 million from a year ago, once again, reflecting the absence of the historical quarterly amortization charge associated with the Bernstein acquisition.

Third quarter operating income of $281 million increased 30% versus the prior year period as revenue growth outpaced expense increases. Third quarter operating margin of 31.8% was up 210 basis points year-on-year, reflecting the operating leverage of our business. The incremental third quarter margin was 41% as compared to the prior year period. We continue to manage the business to an incremental margin of 45% to 50%, not necessarily every year, but on average over time. The third quarter effective tax rate for AllianceBernstein LP was 5.7%. We continue to expect an effective tax rate for 2021 of between 5% and 5.5%. I'll finish with an update on our planned corporate headquarters relocation to Nashville, which is going well.

At quarter end, we had 930 Nashville-based employees, nearly 75% of the way to our target of 1,250. For our major offices in the U.S. and EMEA, we began returning to the office in July, which included moving into our new downtown Nashville headquarters building. For the third quarter, estimated expense savings related to our Nashville corporate headquarters relocation totaled $12 million compared to transition costs of $7 million, resulting in a net $5 million increase in operating income or approximately $0.02 per unit. Of the net $5 million, approximately $9 million is compensation-related savings offset by $4 million of increased occupancy costs.

For 2021, we expect accretion of approximately $0.04 per unit versus our prior guidance of $0.02 per unit, and we expect savings to be positive each year thereafter. We expect ongoing annual expense savings beginning in 2025, once the transition is over to be in the range of $75 million to $80 million. Now I'll turn it back to Seth.

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

Thank you, Ali. Turning to Slide 26. In the third quarter, we continued to make progress on the dimensions we've previously outlined. We drove 5% annualized organic revenue growth, including a 1% increase in fee rate with net flows growing in each channel led by active equities and municipals. We secured our first third-party client for our Equitable back European commercial real estate debt platform and priced our third CLO also with the backing of Equitable. We drove healthy incremental margins in the third quarter and are on track with our long-term goal for the 9 months of the year.

As a partnership, we have a relatively low tax rate, and we will pay a distribution of $0.89 per unit for the third quarter for a robust trailing 12-month yield to 7% in a low-rate environment. With that, we are pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from the line of Dan Fannon with Jefferies.

Ritwik Roy - *Jefferies LLC, Research Division - Equity Associate*

This is actually Ritwick Roy filling in for Dan. I hope you guys are doing well today. I had a question actually on the alternatives. Of course, you have highlighted it shown strong growth coming from private wealth channel. I was just curious how are you guys looking at demand from non-PWM channels? Are you seeing flows become more diversified? And kind of on that point, whether it's retail or otherwise, what sort of funds are you guys in the market raising AUM for outside the sort of the European commercial real estate fund that you guys have highlighted. So yes, I was curious on those points.

Ali Dibadj - *AllianceBernstein Holding L.P. - CFO & Head of Strategy*

Sure. Thanks, Rick, for the question. And thanks for focusing on private alternatives, which is a really important and growing part of both our business and it sounds like the industry as well. So recall, we have north of $20 billion now in our broader private alternatives business. We continue to see that growing at a very, very good pace, not only in the businesses that we have right now, commercial estate debt dimension, our middle market direct lending business as well. We have a U.S. and European real estate debt business as well as otherwise, but also in adjacencies of those that we're building as well, and we expect that to continue to grow and have a lot of faith in it.

From a channel perspective, it's pretty well diversified actually. About 1/4 of the AUM right now is in -- is from the private wealth business that we have, and then 75% of it roughly is from the institutional channel. The institutional channel being both a third party as well as our partners with Equitable and others in insurance, particularly. So we think that, that diversification helps us both in terms of broader diversification in product as well as in channel.

To your question of what's around the corner? Look, there's lots around the corner for us. Again, as I mentioned at the outset, we have high hopes for that business. We continue to want to grow it and diversify it both from a product perspective and a channel perspective, including down the line, certainly, hopefully, not overnight, but over time in retail as well. So thanks for the question.

Operator

Your next question comes from the line of Bill Katz with Citigroup.

William Raymond Katz - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

Joined a couple minutes late, so I apologize. If you may have covered this in your prepared commentary. Just coming back to the recently announced $10 billion permanent capital initiative with Equitable. One, does the leadership change, change anything? I presume not. But secondly, can you give us an update of maybe where you stand in terms of transitioning the existing book and build in the second book and maybe even some third-party opportunities beyond that?

Ali Dibadj - *AllianceBernstein Holding L.P. - CFO & Head of Strategy*

Sure. Thanks very much. Yes. So on the $10 billion agreement we have with Equitable to see a lot of our capital in private alternatives. Just a reminder, rough numbers, around half of that will be a reallocation of where they've invested right now with us and the other half will be new capital brought to bear to see things that we expect to grow. And if you remember, a couple of quarters ago, Matt Bass, who runs that business, went through our growth trajectories and think about growing 4 to 5x roughly is what we've done historically, and we continue to believe that we can deliver that for our clients, most importantly and also for our shareholders.

That process is in the early stages at $10 billion in the early stages right now. We're working together with Equitable to figure out what asset classes they want to expand into, whether it be areas that we have right now or areas that we want to go into, obviously, and grow those businesses. So we're still working on that front. And so far, the progress is going very well and exactly as planned. I think you'll start to hear more about it in 2022.

To your very specific question about the change in leadership, that does not change anything to those plans, both Equitable and AB, see the virtuous cycle that we can both create and are both creating and expect that continue to be a bigger driver of our growth in private alternatives.

William Raymond Katz - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

Okay. And just as a follow-up and try to squeeze the second part, and I apologize. But I appreciate the added color and context of the Asia-Pac portfolio. And I certainly appreciate you saying that your fee rate should grind up from here overall. But can you unpack that a little bit? How does Asia-Pac's platform compare to maybe the rest of the asset management platform on a fee rate and margin perspective? And then unrelatedly, as you look to G&A for next year, how should we be thinking about the growth rate given what you gave guidance on for the fourth quarter?

Ali Dibadj - *AllianceBernstein Holding L.P. - CFO & Head of Strategy*

Why don't I start and then maybe Ajai and Seth can chime in as well. So to the first part of your question, on the fee rate, I think as you saw in some of the Ajai slides, which totally were helpful and give you a little bit of a spotlight on the business we're very proud of. The delivery of the products, obviously, from a fee rate perspective depends on both the channels and the actual products that we deliver, right? And if you look at the products that we're delivering, certainly the shift to active equities in that marketplace and the partnership we have with wonderful distributors there that deliver to the end clients with us, you would expect that the fee rate will be higher from a mix perspective for us from that region. And your expectations would be true for us. And again, as long as we deliver the right product in the right channel to our clients. We believe that we will be rewarded with resistant fee rates in that marketplace. And again, we're managing the mix across the board.

From, I guess, G&A perspective, if that's the second part of your question, Bill, look, there are a couple of things we can go into, right? So pure brass tacks from a G&A, you saw this quarter was about a 12% year-on-year increase. If you look at that and disaggregate it, about 3 points of that 12% increase was the Nashville relocation. We've been pretty clear, hopefully, telegraphing that. So 12% growth goes to something like 9% growth. Again, the Nashville move, delivering really good savings already this year at approximately $0.04 and we hope continue to be positive as we go forward in terms of savings there. So that, that part of that move is those investments we have to make. Then we are left with kind of 9% growth on a year-on-year basis. And I just disaggregate down to 2 areas. One area are investments we're making deliberately to deliver for our customers. In particular, we've invested in this quarter. And I think some of the investments will continue in delivering to our clients globally in a more digitally forward manner. We believe those are giving us really great returns already, and those are deliberate investments from a technology perspective that we want to continue, and that's a part of that of the 9% that's left. And those are delivered decisions, right? Product development decisions as well in there.

There is a chunk of that 9% that's left that we wish we didn't have, right? It's not our choice. That's inflationary pressures that are there. And gosh, I'll tell you that the inflationary pressures for all of us, and I'm not sure this is inconsistent with what some of our peers would say, have certainly crept up. So the high end of the mid-single-digit range is how I think about the inflation rate these days. So I think 4% to 6% is the mid-single digits. We're kind of at the higher end of that. That's things like market data services, that's things like recruiting costs, et cetera. And we don't see that dissipating overtime.

So to your question, that's the disaggregation in this quarter. And if you think about in Q4, we would not expect that growth rate to be any less than what we've seen year-on-year in Q3. In fact, I think it's a safe bet to believe, given the ROIs were getting some of these investments that the year-on-year growth in G&A for Q4 would be north of what we saw in Q3. Hopefully, the answer is kind of chunks of your questions, and Ajai and Seth if there are other things you guys might want to add.

Ajai Mohan Kaul - *AllianceBernstein Holding L.P. - Regional CEO for Asia Pacific*

I'm not sure I have a lot more to add, Ali, but to the point that we are focused on continuing to diversify our equity services in the region, that should certainly support the fee rate -- the average fee rate and the mix there. And to the point that I made about continued demand or conversations on multi-asset services solutions and customization. If we succeed in those conversations and bring those assets on, that's also beneficial to the average fee rate.

Operator

Your next question is from the line of John Dunn with Evercore.

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

Maybe one on Private Wealth Management. You guys have talked about kind of a dichotomy between legacy clients outflowing and ultra high net worth people liking new products. Maybe can you talk about that push and pull where we are in the short term and then in the medium term as a way to keep all three legs in the stool contributing to growth?

Catherine Cooney Burke - *AllianceBernstein L.P. - COO*

Sure. Thanks for the question. This is Kate Burke here. Look, we continue to see a strong mix shift towards the ultra-high net worth business, which we categorize as sort of $20 billion -- or $20 million or greater, and that is growing at a faster rate -- organic growth rate than the rest of our organization, sort of mid-single digits versus the 2% to 3% that we've put up as a net organic growth rate right now. And I think that's largely attributed to a couple of intentional things we're doing around segmentation. So one is, where we have these complex, high-value clients, and they tend to have opportunities and that is often and Seth mentioned this in his comments around those pre-liquidity events. We think that the wealth advice and the work we're doing with those clients differentiated and enables us to be really an independent valued adviser to that client base. So we continue to do the thought leadership in that area and drive that. But even more broadly, is the overall investment we're also making in our asset allocation and the addition of the alternative and ESG into our SMA platform, do you see things like portfolio with purpose, continuing to be adopted and growing well. It's a little over $6 billion right now. That's up 75% year-over-year. You've seen the alternatives business development, as we mentioned in earlier comments and doubling year-over-year. And we think that, that continues to support our movement into that ultra-high-net-worth space. That being said, the core platform continues to be very strong in terms of the full breadth of offering we have to that broader time base. And so you'll continue to see segmentation for us, the emerging affluent our kind of traditional core client and then continue to grow in that ultra-high-net-worth space, I think over time, with a different -- and we'll continue to invest in improving that offering as well as differentiating among those different segments.

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

Got you. And then maybe one looking out a little further. As you build the China business over a bunch of years. What do you think -- what strategies might -- do you think might be in demand in that market? And do you think it's going to be a different kind of market than the rest of Asia, product-wise?

Ajai Mohan Kaul - *AllianceBernstein Holding L.P. - Regional CEO for Asia Pacific*

Well, I think the market lends itself to active management. And so we would expect to see ourselves launch a number of different active services in that market, leading off with probably an equity service. There are -- the market there is heavily focused in money market funds as well as hybrid funds, which are a mix of equity and fixed income funds. So differentiated multi-asset services equity. And at some point, customized or solution-type services would be the one that we probably launch in China. So you would see probably a number of services that looked like what we are selling in the rest of APAC, but we would certainly customize to the needs of the domestic market.

Operator

Our next question is from the line of Alex Blostein with Goldman Sachs.

Sheriq Sumar - *Goldman Sachs Group, Inc., Research Division - Business Analyst*

This is Sheriq filling in for Alex. My question is on the Bernstein, the research revenues. Pretty strong growth in this quarter. So we're just seeing if you can provide some color as to how much was it from increased client engagement or more client onboarding versus trading volumes? And if you can just spell out as to what's the strategy for this segment within the U.S. and even outside the U.S. as well? Like we saw pretty strong growth in Asia and in Europe.

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

It's Seth. Thank you for the question. It was a strong quarter for Bernstein Research. Most of that was attributable to volume, particularly into September where we saw choppier markets, their activity levels rise in that context. Keep in mind that overall in the third quarter, U.S. volumes -- industry volumes were down a bit, but Europe and Asia were up pretty strongly. So it was a nice offset for the business given this diversification. And as you pointed out, Asia continues to grow quite rapidly for us. The other area where we were seeing was pretty strong receipt of checks for subscription research services, which is important, particularly, of course, in Europe and that will continue. But we are volume sensitive. And so unless we saw a pickup in volatility again I wouldn't necessarily see that element of it repeating.

Look, our strategy is to continue to differentiate ourselves with fundamental, research and where we've been spending time and focus is by broadening our offerings in Asia in particular and also in Europe. So we feel that the business continues to gain recognition for its distinctive approach. We have a point of view, which people want to see, but the secular competitive challenges of the research business remain. And while this will be a stronger year, particularly for those firms that have an IPO calendar or our prime brokerage business attached to it. For us, it's been a pretty strong year based on the quality of the research and trading support we've provided.

Operator

And your next question comes from the line of Robert Lee with Keefe, Bruyette & Woods.

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

Great. Just real quickly. In the Private Wealth business, you highlighted, one of the things you highlighted was the success you're having with your tax loss harvesting portfolio? And can you talk about ability or interest of rolling that out more broadly, just kind of clearly that seems to be a very popular and hot growth area for the broader wealth management industry. So maybe touch on that first.

Catherine Cooney Burke - *AllianceBernstein L.P. - COO*

Sure. Well, I can start from the Private Wealth perspective. Yes, there are two things, I think, that are happening there: One is from a Bernstein Wealth perspective, we have had a very strong tax aware campaign to highlight that adverse offering across the different asset classes and so that has enabled, I think, in many ways for that product to be positioned very well in the marketplace. And we are looking in -- within Private Wealth for further extensions of that product into that panel. In terms of taking it further, I will turn this to Seth or others to opine on the timing of questions around that.

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

Yes. Look, it's a question we think about a lot. I mean, it sits very nicely in Bernstein Research because much of what Bernstein has always done has been an SMA form, which has allowed us to be quite aggressive in tax management. And we just thought that when we looked at what was publicly available out there, we thought we could build something that was as good or better for our clients. And we're really proud of the team having put it in place. And we do think about where their commercial applications were beyond us. But what we're humble as to what the opportunities are given the competition out there. That being said, I think that the real opportunity is customized indexing, which I think is going to continue to grow, and it's going to grow within both private wealth in our business, but I think also among RIAs and others in the business more broadly, and this is an area we focus on and think about how we participate.

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

Great. And then maybe just a quick follow-up. I mean you've had, obviously, more success than the most and continuing to inflow into your active equities business. And I'm just curious, particularly within U.S. retail, obviously, performance helps -- can't do it without performance. But is there anything else that you could point to maybe specifically in the U.S., do you feel whether it's your size, scale, distribution footprint that's kind of helped you maybe buck the trend a bit more? Because even some peers with good performance are struggling to get any kind of inflows. So any additional color there?

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

Well, look, I mean, I think good performance is table stakes, and I think your question implies it. And so we agree with that, but we are blessed with it. We've also had interesting products beyond large cap growth, which has been a real strong player for us in the domestic U.S. market, whether it is sustainable, U.S. thematic or other portfolios of purpose that seem to resonate with clients. And I think that's maybe the important attribute. We have developed a number of strategies where clients want the return stream and can't replicate it through passive management. And we have a differentiated return stream that speaks to them, particularly people who are building model portfolios and others who are looking for diversification within their existing models. And so I think given that we were perhaps under scale in equities for a while and we've had products and the clients really value that diversification. I think that's played to our strength, domestically. But I think our calling effort is very thoughtful and increasingly tech enabled. And so I think we're seeing better efficiencies there and being more timely and engaging with clients, but I don't think there's a silver bullet here. I think it's a lot of different functions working very effectively together. And so I guess that's my answer. I don't know, Ali, if you have a different view or additional view.

Ali Dibadj - *AllianceBernstein Holding L.P. - CFO & Head of Strategy*

No, I think that's great.

Operator

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

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

Thank you, Misty. Thanks, everyone, for participating in our conference call this morning. Feel free to reach out and contact Investor Relations with any further questions, and have a great rest of your day. Goodbye.

Operator

This concludes today's conference call. You may now disconnect.