

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2018**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File No. 001-09818**

**ALLIANCBERNSTEIN HOLDING L.P.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**13-3434400**

(I.R.S. Employer Identification No.)

**1345 Avenue of the Americas, New York, NY 10105**

(Address of principal executive offices)

(Zip Code)

**(212) 969-1000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

**Yes**

**No**

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

**Yes**

**No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

**Large accelerated filer**

**Accelerated filer**

**Non-accelerated filer**

**Smaller reporting company**

**Emerging growth company**

**If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

**Yes**   

**No**   

The number of units representing assignments of beneficial ownership of limited partnership interests outstanding as of September 30, 2018 was 96,372,964.\*

\*includes 100,000 units of general partnership interest having economic interests equivalent to the economic interests of the units representing assignments of beneficial ownership of limited partnership interests.

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## Part I

## FINANCIAL INFORMATION

Item 1.	<a href="#">Financial Statements</a>	
	<a href="#">Condensed Statements of Financial Condition</a>	<a href="#">1</a>
	<a href="#">Condensed Statements of Income</a>	<a href="#">2</a>
	<a href="#">Condensed Statements of Comprehensive Income</a>	<a href="#">3</a>
	<a href="#">Condensed Statements of Cash Flows</a>	<a href="#">4</a>
	<a href="#">Notes to Condensed Financial Statements</a>	<a href="#">5</a>
Item 2.	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">11</a>
Item 3.	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">14</a>
Item 4.	<a href="#">Controls and Procedures</a>	<a href="#">14</a>

## Part II

## OTHER INFORMATION

Item 1.	<a href="#">Legal Proceedings</a>	<a href="#">15</a>
Item 1A.	<a href="#">Risk Factors</a>	<a href="#">15</a>
Item 2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">15</a>
Item 3.	<a href="#">Defaults Upon Senior Securities</a>	<a href="#">16</a>
Item 4.	<a href="#">Mine Safety Disclosures</a>	<a href="#">16</a>
Item 5.	<a href="#">Other Information</a>	<a href="#">16</a>
Item 6.	<a href="#">Exhibits</a>	<a href="#">18</a>
	<a href="#">SIGNATURE</a>	<a href="#">19</a>

## Part I

## FINANCIAL INFORMATION

**Item 1. Financial Statements**

**ALLIANCEBERNSTEIN HOLDING L.P.**  
**Condensed Statements of Financial Condition**  
(in thousands, except unit amounts)  
(unaudited)

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Investment in AB	\$ 1,489,182	\$ 1,544,704
<b>Total assets</b>	<b>\$ 1,489,182</b>	<b>\$ 1,544,704</b>
<b>LIABILITIES AND PARTNERS' CAPITAL</b>		
Liabilities:		
Other liabilities	\$ 525	\$ 1,154
<b>Total liabilities</b>	525	1,154
Commitments and contingencies (See Note 8)		
Partners' capital:		
General Partner: 100,000 general partnership units issued and outstanding	1,392	1,411
Limited partners: 96,272,964 and 96,361,989 limited partnership units issued and outstanding	1,556,446	1,590,776
AB Holding Units held by AB to fund long-term incentive compensation plans	(30,893)	(15,174)
Accumulated other comprehensive loss	(38,288)	(33,463)
<b>Total partners' capital</b>	1,488,657	1,543,550
<b>Total liabilities and partners' capital</b>	<b>\$ 1,489,182</b>	<b>\$ 1,544,704</b>

See Accompanying Notes to Condensed Financial Statements.

**ALLIANCEBERNSTEIN HOLDING L.P.**  
**Condensed Statements of Income**  
(in thousands, except per unit amounts)  
(unaudited)

	<b>Three Months Ended September</b>		<b>Nine Months Ended</b>	
	<b>30,</b>		<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Equity in net income attributable to AB Unitholders	\$ 72,802	\$ 49,055	\$ 203,888	\$ 146,668
Income taxes	6,902	5,877	21,371	17,839
<b>Net income</b>	<b>\$ 65,900</b>	<b>\$ 43,178</b>	<b>\$ 182,517</b>	<b>\$ 128,829</b>
<b>Net income per unit:</b>				
<b>Basic</b>	<b>\$ 0.68</b>	<b>\$ 0.46</b>	<b>\$ 1.87</b>	<b>\$ 1.35</b>
<b>Diluted</b>	<b>\$ 0.68</b>	<b>\$ 0.46</b>	<b>\$ 1.87</b>	<b>\$ 1.35</b>

See Accompanying Notes to Condensed Financial Statements.

**ALLIANCEBERNSTEIN HOLDING L.P.**  
**Condensed Statements of Comprehensive Income**  
(in thousands)  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$ 65,900	\$ 43,178	\$ 182,517	\$ 128,829
Other comprehensive income (loss):				
Foreign currency translation adjustments, before reclassification and tax	(1,291)	2,672	(5,272)	8,514
Less: reclassification adjustment for (losses) included in net income upon liquidation	—	—	(36)	—
Foreign currency translation adjustments, before tax	(1,291)	2,672	(5,236)	8,514
Income tax benefit (expense)	26	(2)	1	50
Foreign currency translation adjustments, net of tax	(1,265)	2,670	(5,235)	8,564
Unrealized gains on investments:				
Unrealized (losses) gains arising during period	—	(2)	—	2
Less: reclassification adjustments for gains included in net income	—	—	—	—
Changes in unrealized (losses) gains on investments	—	(2)	—	2
Income tax benefit	—	2	—	4
Unrealized gains on investments, net of tax	—	—	—	6
Changes in employee benefit related items:				
Amortization of prior service cost	5	2	6	12
Recognized actuarial gain	295	88	314	621
Changes in employee benefit related items	300	90	320	633
Income tax expense	(3)	—	(43)	(31)
Employee benefit related items, net of tax	297	90	277	602
Other	—	—	133	—
Other comprehensive (loss) income	(968)	2,760	(4,825)	9,172
<b>Comprehensive income</b>	<b>\$ 64,932</b>	<b>\$ 45,938</b>	<b>\$ 177,692</b>	<b>\$ 138,001</b>

See Accompanying Notes to Condensed Financial Statements.

**ALLIANCEBERNSTEIN HOLDING L.P.**  
**Condensed Statements of Cash Flows**  
(in thousands)  
(unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Cash flows from operating activities:		
<b>Net income</b>	<b>\$ 182,517</b>	<b>\$ 128,829</b>
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in net income attributable to AB Unitholders	(203,888)	(146,668)
Cash distributions received from AB	235,307	173,025
Changes in assets and liabilities:		
Decrease in other liabilities	(629)	(395)
<b>Net cash provided by operating activities</b>	<b>213,307</b>	<b>154,791</b>
Cash flows from investing activities:		
Investments in AB with proceeds from exercise of compensatory options to buy AB Holding Units	(10,802)	(17,672)
<b>Net cash used in investing activities</b>	<b>(10,802)</b>	<b>(17,672)</b>
Cash flows from financing activities:		
Cash distributions to Unitholders	(214,670)	(155,056)
Capital contributions from AB	1,363	265
Proceeds from exercise of compensatory options to buy AB Holding Units	10,802	17,672
<b>Net cash used in financing activities</b>	<b>(202,505)</b>	<b>(137,119)</b>
<b>Change in cash and cash equivalents</b>	<b>—</b>	<b>—</b>
Cash and cash equivalents as of beginning of period	—	—
<b>Cash and cash equivalents as of end of period</b>	<b>\$ —</b>	<b>\$ —</b>

See Accompanying Notes to Condensed Financial Statements.

**ALLIANCEBERNSTEIN HOLDING L.P.**  
**Notes to Condensed Financial Statements**  
**September 30, 2018**  
(unaudited)

The words “we” and “our” refer collectively to AllianceBernstein Holding L.P. (“AB Holding”) and AllianceBernstein L.P. and its subsidiaries (“AB”), or to their officers and employees. Similarly, the word “company” refers to both AB Holding and AB. Where the context requires distinguishing between AB Holding and AB, we identify which of them is being discussed.

## **1. Business Description, Organization and Basis of Presentation**

### *Business Description*

AB Holding’s principal source of income and cash flow is attributable to its investment in AB limited partnership interests. The condensed financial statements and notes of AB Holding should be read in conjunction with the condensed consolidated financial statements and notes of AB included as an exhibit to this quarterly report on Form 10-Q and with AB Holding’s and AB’s audited financial statements included in AB Holding’s Form 10-K for the year ended December 31, 2017.

AB provides research, diversified investment management and related services globally to a broad range of clients. Its principal services include:

- Institutional Services – servicing its institutional clients, including private and public pension plans, foundations and endowments, insurance companies, central banks and governments worldwide, and affiliates such as AXA S.A. (“AXA”), AXA Equitable Holdings, Inc. (“EQH”) and their respective subsidiaries, by means of separately-managed accounts, sub-advisory relationships, structured products, collective investment trusts, mutual funds, hedge funds and other investment vehicles.
- Retail Services – servicing its retail clients, primarily by means of retail mutual funds sponsored by AB or an affiliated company, sub-advisory relationships with mutual funds sponsored by third parties, separately-managed account programs sponsored by financial intermediaries worldwide and other investment vehicles.
- Private Wealth Management Services – servicing its private clients, including high-net-worth individuals and families, trusts and estates, charitable foundations, partnerships, private and family corporations, and other entities, by means of separately-managed accounts, hedge funds, mutual funds and other investment vehicles.
- Bernstein Research Services – servicing institutional investors, such as pension fund, hedge fund and mutual fund managers, seeking high-quality fundamental research, quantitative services and brokerage-related services in equities and listed options.

AB also provides distribution, shareholder servicing, transfer agency services and administrative services to the mutual funds it sponsors.

AB’s high-quality, in-depth research is the foundation of its business. AB’s research disciplines include economic, fundamental equity, fixed income and quantitative research. In addition, AB has experts focused on multi-asset strategies, wealth management and alternative investments.

AB provides a broad range of investment services with expertise in:

- Actively-managed equity strategies, with global and regional portfolios across capitalization ranges, concentration ranges and investment strategies, including value, growth and core equities;
- Actively-managed traditional and unconstrained fixed income strategies, including taxable and tax-exempt strategies;
- Passive management, including index and enhanced index strategies;
- Alternative investments, including hedge funds, fund of funds and private equity (*e.g.*, direct real estate investing and direct lending); and
- Multi-asset solutions and services, including dynamic asset allocation, customized target-date funds and target-risk funds.



AB's services span various investment disciplines, including market capitalization (*e.g.*, large-, mid- and small-cap equities), term (*e.g.*, long-, intermediate- and short-duration debt securities), and geographic location (*e.g.*, U.S., international, global, emerging markets, regional and local), in major markets around the world.

### Organization

During the second quarter of 2018, AXA Equitable Holdings, Inc. ("EQH"), the holding company for a diversified financial services organization, conducted an initial public offering; AXA, a French holding company for AXA Group, a worldwide leader in life, property and casualty and health insurance and asset management owns approximately 72% of the outstanding common stock of EQH as of September 30, 2018. AXA has announced its intention to sell its entire interest in EQH over time, subject to market conditions and other factors. AXA is under no obligation to do so and retains the sole discretion to determine the timing of any future sales of shares of EQH common stock.

As of September 30, 2018, EQH owns approximately 3.9% of the issued and outstanding units representing assignments of beneficial ownership of limited partnership interests in AB Holding ("AB Holding Units"). AllianceBernstein Corporation (an indirect wholly-owned subsidiary of EQH, "General Partner") is the general partner of both AB Holding and AB. AllianceBernstein Corporation owns 100,000 general partnership units in AB Holding and a 1% general partnership interest in AB.

As of September 30, 2018, the ownership structure of AB, expressed as a percentage of general and limited partnership interests, is as follows:

EQH and its subsidiaries	63.7%
AB Holding	35.5
Unaffiliated holders	0.8
	100.0%

Including both the general partnership and limited partnership interests in AB Holding and AB, EQH and its subsidiaries have an approximate 65.1% economic interest in AB as of September 30, 2018.

### Basis of Presentation

The interim condensed financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the interim results, have been made. The preparation of the condensed financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the condensed financial statements and the reported amounts of revenues and expenses during the interim reporting periods. Actual results could differ from those estimates. The condensed statement of financial condition as of December 31, 2017 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP").

AB Holding records its investment in AB using the equity method of accounting. AB Holding's investment is increased to reflect its proportionate share of income of AB and decreased to reflect its proportionate share of losses of AB and cash distributions made by AB to its Unitholders. In addition, AB Holding's investment is adjusted to reflect its proportionate share of certain capital transactions of AB.

### AB's ASC 606 Implementation

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers, which outlines a single comprehensive revenue recognition model for all contracts with customers and supersedes most of the existing revenue recognition requirements. This standard had no impact on AB Holding's statement of income. AB adopted this new standard on January 1, 2018 on a modified retrospective basis for contracts that were not completed as of the date of adoption.

On January 1, 2018, AB recorded a cumulative effect adjustment, net of tax, of a \$35.0 million increase to partners' capital in its condensed consolidated statement of financial condition. Accordingly, AB Holding, as a result of its 35.5% ownership interest in AB as of January 1, 2018, recorded a cumulative effect adjustment, net of tax, of \$12.5 million to partners' capital in its condensed statement of financial condition.

## 2. Cash Distributions

AB Holding is required to distribute all of its Available Cash Flow, as defined in the Amended and Restated Agreement of Limited Partnership of AB Holding ("AB Holding Partnership Agreement"), to its Unitholders *pro rata* in accordance with their percentage interests in AB Holding. Available Cash Flow is defined as the cash distributions AB Holding receives from AB minus such amounts as the General Partner determines, in its sole discretion, should be retained by AB Holding for use in its business (such as the payment of taxes) or plus such amounts as the General Partner determines, in its sole discretion, should be released from previously retained cash flow.

On October 24, 2018, the General Partner declared a distribution of \$0.69 per unit, representing a distribution of Available Cash Flow for the three months ended September 30, 2018. Each general partnership unit in AB Holding is entitled to receive distributions equal to those received by each AB Holding Unit. The distribution is payable on November 15, 2018 to holders of record at the close of business on November 5, 2018.

## 3. Long-term Incentive Compensation Plans

AB maintains several unfunded, non-qualified long-term incentive compensation plans, under which the company grants awards of restricted AB Holding Units to its employees and members of the Board of Directors, who are not employed by AB or by any of AB's affiliates ("Eligible Directors").

AB funds its restricted AB Holding Unit awards either by purchasing AB Holding Units on the open market or purchasing newly-issued AB Holding Units from AB Holding, and then keeping all of these AB Holding Units in a consolidated rabbi trust until delivering them or retiring them. In accordance with the AB Holding Partnership Agreement, when AB purchases newly-issued AB Holding Units from AB Holding, AB Holding is required to use the proceeds it receives from AB to purchase the equivalent number of newly-issued AB Units, thus increasing its percentage ownership interest in AB. AB Holding Units held in the consolidated rabbi trust are corporate assets in the name of the trust and are available to the general creditors of AB.

During the three and nine months ended September 30, 2018, AB purchased 1.6 million and 2.9 million AB Holding Units for \$48.0 million and \$83.2 million, respectively (on a trade date basis). These amounts reflect open-market purchases of 1.6 million and 2.8 million AB Holding Units for \$48.0 million and \$80.9 million, respectively, with the remainder relating to purchases of AB Holding Units from employees to allow them to fulfill statutory tax withholding requirements at the time of delivery of long-term incentive compensation awards. During the three and nine months ended September 30, 2017, AB purchased 0.3 million and 5.9 million AB Holding Units for \$6.9 million and \$134.6 million, respectively (on a trade date basis). These amounts reflect open-market purchases of 0.3 million and 5.2 million AB Holding Units for \$6.8 million and \$117.1 million, respectively, with the remainder relating to purchases of AB Holding Units from employees to allow them to fulfill statutory tax withholding requirements at the time of delivery of long-term incentive compensation awards.

Each quarter, AB considers whether to implement a plan to repurchase AB Holding Units pursuant to Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934, as amended ("Exchange Act"). A plan of this type allows a company to repurchase its shares at times when it otherwise might be prevented from doing so because of self-imposed trading blackout periods or because it possesses material non-public information. Each broker selected by AB has the authority under the terms and limitations specified in the plan to repurchase AB Holding Units on AB's behalf in accordance with the terms of the plan. Repurchases are subject to regulations promulgated by the SEC as well as certain price, market volume and timing constraints specified in the plan. The plan adopted during the third quarter of 2018 expired at the close of business on October 22, 2018. AB may adopt additional plans in the future to engage in open-market purchases of AB Holding Units to help fund anticipated obligations under its incentive compensation award program and for other corporate purposes.

During the first nine months of 2018 and 2017, AB granted to employees and Eligible Directors 2.5 million and 2.1 million restricted AB Holding Unit awards, respectively. AB used AB Holding Units repurchased during the periods and newly-issued AB Holding Units to fund these restricted AB Holding Unit awards.

During the first nine months of 2018 and 2017, AB Holding issued 0.6 million and 1.0 million AB Holding Units, respectively, upon exercise of options to buy AB Holding Units. AB Holding used the proceeds of \$10.8 million and \$17.7 million, respectively, received as payment in cash for the exercise price to purchase the equivalent number of newly-issued AB Units.

#### 4. Net Income per Unit

Basic net income per unit is derived by dividing net income by the basic weighted average number of units outstanding for each period. Diluted net income per unit is derived by adjusting net income for the assumed dilutive effect of compensatory options (“Net income – diluted”) and dividing by the diluted weighted average number of units outstanding for each period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands, except per unit amounts)			
Net income – basic	\$ 65,900	\$ 43,178	\$ 182,517	\$ 128,829
Additional allocation of equity in net income attributable to AB resulting from assumed dilutive effect of compensatory options	117	136	376	450
Net income – diluted	\$ 66,017	\$ 43,314	\$ 182,893	\$ 129,279
Weighted average units outstanding – basic	97,409	93,374	97,587	95,218
Dilutive effect of compensatory options	245	400	282	455
Weighted average units outstanding – diluted	97,654	93,774	97,869	95,673
<b>Basic net income per unit</b>	<b>\$ 0.68</b>	<b>\$ 0.46</b>	<b>\$ 1.87</b>	<b>\$ 1.35</b>
<b>Diluted net income per unit</b>	<b>\$ 0.68</b>	<b>\$ 0.46</b>	<b>\$ 1.87</b>	<b>\$ 1.35</b>

For the three and nine months ended September 30, 2018, we excluded 824,245 options and 844,973 options, respectively, from the diluted net income computation due to their anti-dilutive effect. For the three and nine months ended September 30, 2017, we excluded 2,427,527 options from the diluted net income computation due to their anti-dilutive effect.

#### 5. Investment in AB

Changes in AB Holding’s investment in AB during the nine-month period ended September 30, 2018 are as follows (in thousands):

Investment in AB as of December 31, 2017	\$ 1,544,704
Equity in net income attributable to AB Unitholders	203,888
Changes in accumulated other comprehensive income (loss)	(4,825)
Additional investments with proceeds from exercise of compensatory options to buy AB Holding Units	10,802
Cash distributions received from AB	(235,307)
Capital contributions from AB	(1,363)
AB Holding Units retired	(100,330)
AB Holding Units issued to fund long-term incentive compensation plans	74,916
Change in AB Holding Units held by AB for long-term incentive compensation plans	(15,719)
Impact of AB's adoption of revenue recognition standard ASC 606	12,549
Other	(133)
<b>Investment in AB as of September 30, 2018</b>	<b>\$ 1,489,182</b>

## 6. Units Outstanding

Changes in AB Holding Units outstanding during the nine-month period ended September 30, 2018 are as follows:

Outstanding as of December 31, 2017	96,461,989
Options exercised	629,493
Units issued	2,712,263
Units retired	(3,430,781)
<b>Outstanding as of September 30, 2018</b>	<b>96,372,964</b>

## 7. Income Taxes

AB Holding is a “grandfathered” publicly-traded partnership (“PTP”) for federal tax purposes and, accordingly, is not subject to federal or state corporate income taxes. However, AB Holding is subject to the 4.0% New York City unincorporated business tax (“UBT”), net of credits for UBT paid by AB, and to a 3.5% federal tax on partnership gross income from the active conduct of a trade or business. AB Holding’s partnership gross income is derived from its interest in AB.

AB Holding’s federal income tax is computed by multiplying certain AB qualifying revenues (primarily U.S. investment advisory fees and brokerage commissions) by AB Holding’s ownership interest in AB, multiplied by the 3.5% tax rate. AB Holding Units in AB’s consolidated rabbi trust are not considered outstanding for purposes of calculating AB Holding’s ownership interest in AB.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
	(in thousands)					
Net income attributable to AB Unitholders	\$ 203,674	\$ 140,954	44.5%	\$ 569,535	\$ 415,994	36.9%
Multiplied by: weighted average equity ownership interest	35.7%	34.8%		35.8%	35.3%	
Equity in net income attributable to AB Unitholders	\$ 72,802	\$ 49,055	48.4	\$ 203,888	\$ 146,668	39.0
AB qualifying revenues	\$ 649,270	\$ 581,410	11.7	\$ 1,995,197	\$ 1,714,065	16.4
Multiplied by: weighted average equity ownership interest for calculating tax	29.8%	28.3%		30.0%	29.2%	
Multiplied by: federal tax	3.5%	3.5%		3.5%	3.5%	
Federal income taxes	6,775	5,767		20,979	17,517	
State income taxes	127	110		392	322	
<b>Total income taxes</b>	<b>\$ 6,902</b>	<b>\$ 5,877</b>	<b>17.4</b>	<b>\$ 21,371</b>	<b>\$ 17,839</b>	<b>19.8</b>
<b>Effective tax rate</b>	<b>9.5%</b>	<b>12.0%</b>		<b>10.5%</b>	<b>12.2%</b>	

In order to preserve AB Holding’s status as a “grandfathered” PTP for federal income tax purposes, management ensures that AB Holding does not directly or indirectly (through AB) enter into a substantial new line of business. If AB Holding were to lose its status as a “grandfathered” PTP, it would be subject to corporate income tax, which would reduce materially AB Holding’s net income and its quarterly distributions to AB Holding Unitholders.

## 8. Commitments and Contingencies

Legal and regulatory matters described below pertain to AB and are included here due to their potential significance to AB Holding's investment in AB.

With respect to all significant litigation matters, we consider the likelihood of a negative outcome. If we determine the likelihood of a negative outcome is probable and the amount of the loss can be reasonably estimated, we record an estimated loss for the expected outcome of the litigation. If the likelihood of a negative outcome is reasonably possible and we are able to determine an estimate of the possible loss or range of loss in excess of amounts already accrued, if any, we disclose that fact together with the estimate of the possible loss or range of loss. However, it is often difficult to predict the outcome or estimate a possible loss or range of loss because litigation is subject to inherent uncertainties, particularly when plaintiffs allege substantial or indeterminate damages. Such is also the case when the litigation is in its early stages or when the litigation is highly complex or broad in scope. In these cases, we disclose that we are unable to predict the outcome or estimate a possible loss or range of loss.

AB may be involved in various matters, including regulatory inquiries, administrative proceedings and litigation, some of which may allege significant damages. It is reasonably possible that AB could incur losses pertaining to these matters, but management cannot currently estimate any such losses.

Management, after consultation with legal counsel, currently believes that the outcome of any individual matter that is pending or threatened, or all of them combined, will not have a material adverse effect on our results of operations, financial condition or liquidity. However, any inquiry, proceeding or litigation has an element of uncertainty; management cannot determine whether further developments relating to any individual matter that is pending or threatened, or all of them combined, will have a material adverse effect on our results of operations, financial condition or liquidity in any future reporting period.

**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

AB Holding’s principal source of income and cash flow is attributable to its investment in AB Units. AB Holding’s interim condensed financial statements and notes and management’s discussion and analysis of financial condition and results of operations (“MD&A”) should be read in conjunction with those of AB included as an exhibit to this Form 10-Q. They also should be read in conjunction with AB’s audited financial statements and notes and MD&A included in AB Holding’s Form 10-K for the year ended December 31, 2017.

**Results of Operations**

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
(in thousands, except per unit amounts)						
Net income attributable to AB Unitholders	\$ 203,674	\$ 140,954	44.5%	\$ 569,535	\$ 415,994	36.9%
Weighted average equity ownership interest	35.7%	34.8%		35.8%	35.3%	
Equity in net income attributable to AB Unitholders	72,802	49,055	48.4	203,888	146,668	39.0
Income taxes	6,902	5,877	17.4	21,371	17,839	19.8
Net income of AB Holding	\$ 65,900	\$ 43,178	52.6	\$ 182,517	\$ 128,829	41.7
Diluted net income per AB Holding Unit	\$ 0.68	\$ 0.46	47.8	\$ 1.87	\$ 1.35	38.5
Distribution per AB Holding Unit <sup>(1)</sup>	\$ 0.69	\$ 0.51	35.3	\$ 2.04	\$ 1.46	39.7

<sup>(1)</sup> Distributions reflect the impact of AB’s non-GAAP adjustments.

Net income for the three and nine months ended September 30, 2018 increased \$22.7 million and \$53.7 million, respectively, due to higher net income attributable to AB Unitholders and a higher weighted average equity ownership interest.

AB Holding’s partnership gross income is derived from its interest in AB. AB Holding’s income taxes, which reflect a 3.5% federal tax on its partnership gross income from the active conduct of a trade or business, are computed by multiplying certain AB qualifying revenues (primarily U.S. investment advisory fees and brokerage commissions) by AB Holding’s ownership interest in AB, multiplied by the 3.5% tax rate. AB Holding’s effective tax rate was 9.5% in the third quarter of 2018 compared to 12.0% during the third quarter of 2017. AB Holding’s effective tax rate during the nine months ended September 30, 2018 was 10.5% compared to 12.2% during the nine months ended September 30, 2017. See Note 7 to the condensed financial statements contained in Item 1 for the calculation of income tax expense.

**Management Operating Metrics**

As supplemental information, AB provides the performance measures “adjusted net revenues”, “adjusted operating income” and “adjusted operating margin”, which are the principal metrics management uses in evaluating and comparing the period-to-period operating performance of AB. Management principally uses these metrics in evaluating performance because they present a clearer picture of AB’s operating performance and allow management to see long-term trends without the distortion primarily caused by long-term incentive compensation-related mark-to-market adjustments, real estate consolidation charges and other adjustment items. Similarly, management believes that these management operating metrics help investors better understand the underlying trends in AB’s results and, accordingly, provide a valuable perspective for investors. Such measures are not based on generally accepted accounting principles (“non-GAAP measures”). These non-GAAP measures are provided in addition to, and not as substitutes for, net revenues, operating income and operating margin, and they may not be comparable to non-GAAP measures presented by other companies. Management uses both GAAP and non-GAAP measures in evaluating the company’s financial performance. The non-GAAP measures alone may pose limitations because they do not include all of AB’s revenues and expenses. Further, adjusted diluted net income per AB Holding Unit is not a liquidity measure and should not be used in place of cash flow measures. See AB’s MD&A contained in Exhibit 99.1.

The impact of these adjustments on AB Holding's net income and diluted net income per AB Holding Unit is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(in thousands, except per Unit amounts)				
AB non-GAAP adjustments, before taxes	\$ 2,665	\$ 19,892	\$ 45,515	\$ 37,439
AB income tax expense on non-GAAP adjustments	(95)	(5,641)	(1,164)	(4,642)
AB non-GAAP adjustments, after taxes	2,570	14,251	44,351	32,797
AB Holding's weighted average equity ownership interest in AB	35.7%	34.8%	35.8%	35.3%
Impact on AB Holding's net income of AB non-GAAP adjustments	\$ 919	\$ 4,960	\$ 15,877	\$ 11,564
Net income – diluted, GAAP basis	\$ 66,017	\$ 43,314	\$ 182,893	\$ 129,279
Impact on AB Holding's net income of AB non-GAAP adjustments	919	4,960	15,877	11,564
Adjusted net income – diluted	\$ 66,936	\$ 48,274	\$ 198,770	\$ 140,843
<b>Diluted net income per AB Holding Unit, GAAP basis</b>	<b>\$ 0.68</b>	<b>\$ 0.46</b>	<b>\$ 1.87</b>	<b>\$ 1.35</b>
Impact of AB non-GAAP adjustments	0.01	0.05	0.16	0.12
<b>Adjusted diluted net income per AB Holding Unit</b>	<b>\$ 0.69</b>	<b>\$ 0.51</b>	<b>\$ 2.03</b>	<b>\$ 1.47</b>

The degree to which AB's non-GAAP adjustments impact AB Holding's net income fluctuates based on AB Holding's ownership percentage in AB.

### Cash Distributions

AB Holding is required to distribute all of its Available Cash Flow, as defined in the AB Holding Partnership Agreement, to its Unitholders (including the General Partner). Available Cash Flow typically is the adjusted diluted net income per unit for the quarter multiplied by the number of units outstanding at the end of the quarter. Management anticipates that Available Cash Flow will continue to be based on adjusted diluted net income per unit, unless management determines, with the concurrence of the Board of Directors, that one or more adjustments that are made for adjusted net income should not be made with respect to the Available Cash Flow calculation. See Note 2 to the condensed financial statements contained in Item 1 for a description of Available Cash Flow.

### Capital Resources and Liquidity

During the nine months ended September 30, 2018, net cash provided by operating activities was \$213.3 million, compared to \$154.8 million during the corresponding 2017 period. The increase primarily resulted from higher cash distributions received from AB of \$62.3 million.

During the nine months ended September 30, 2018, net cash used in investing activities was \$10.8 million, compared to \$17.7 million during the corresponding 2017 period. The activity in both periods reflects the investments in AB with proceeds from exercises of compensatory options to buy AB Holding Units.

During the nine months ended September 30, 2018, net cash used in financing activities was \$202.5 million, compared to \$137.1 million during the corresponding 2017 period. The increase primarily was due to higher cash distributions to Unitholders of \$59.6 million and lower proceeds from exercise of compensatory options to buy AB Holding units of \$6.9 million.

Management believes that AB Holding will have the resources it needs to meet its financial obligations as a result of the cash flow AB Holding realizes from its investment in AB.

## Commitments and Contingencies

See Note 8 to the condensed financial statements contained in Item 1.

## CAUTIONS REGARDING FORWARD-LOOKING STATEMENTS

Certain statements provided by management in this report and in the portion of AB's Form 10-Q attached hereto as Exhibit 99.1 are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. The most significant of these factors include, but are not limited to, the following: the performance of financial markets, the investment performance of sponsored investment products and separately-managed accounts, general economic conditions, industry trends, future acquisitions, integration of acquired companies, competitive conditions and government regulations, including changes in tax regulations and rates and the manner in which the earnings of publicly-traded partnerships are taxed. We caution readers to carefully consider such factors. Further, these forward-looking statements speak only as of the date on which such statements are made; we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. For further information regarding these forward-looking statements and the factors that could cause actual results to differ, see "Risk Factors" in Part I, Item 1A of our Form 10-K for the year ended December 31, 2017 and Part II, Item 1A in this Form 10-Q. Any or all of the forward-looking statements that we make in our Form 10-K, this Form 10-Q, other documents we file with or furnish to the SEC, and any other public statements we issue, may turn out to be wrong. It is important to remember that other factors besides those listed in "Risk Factors" and those listed below could also adversely impact our revenues, financial condition, results of operations and business prospects.

The forward-looking statements referred to in the preceding paragraph, most of which directly affect AB but also affect AB Holding because AB Holding's principal source of income and cash flow is attributable to its investment in AB, include statements regarding:

- Our belief that the cash flow AB Holding realizes from its investment in AB will provide AB Holding with the resources it needs to meet its financial obligations: AB Holding's cash flow is dependent on the quarterly cash distributions it receives from AB. Accordingly, AB Holding's ability to meet its financial obligations is dependent on AB's cash flow from its operations, which is subject to the performance of the capital markets and other factors beyond our control.
- Our financial condition and ability to access the public and private capital markets providing adequate liquidity for our general business needs: Our financial condition is dependent on our cash flow from operations, which is subject to the performance of the capital markets, our ability to maintain and grow client assets under management and other factors beyond our control. Our ability to access public and private capital markets on reasonable terms may be limited by adverse market conditions, our firm's credit ratings, our profitability and changes in government regulations, including tax rates and interest rates.
- The outcome of litigation: Litigation is inherently unpredictable, and excessive damage awards do occur. Though we have stated that we do not expect any pending legal proceedings to have a material adverse effect on our results of operations, financial condition or liquidity, any settlement or judgment with respect to a pending or future legal proceeding could be significant, and could have such an effect.
- The possibility that we will engage in open market purchases of AB Holding Units to help fund anticipated obligations under our incentive compensation award program: The number of AB Holding Units AB may decide to buy in future periods, if any, to help fund incentive compensation awards depends on various factors, some of which are beyond our control, including the fluctuation in the price of an AB Holding Unit (NYSE: AB) and the availability of cash to make these purchases.
- Our determination that adjusted employee compensation expense should not exceed 50% of our adjusted net revenues: Aggregate employee compensation reflects employee performance and competitive compensation levels. Fluctuations in our revenues and/or changes in competitive compensation levels could result in adjusted employee compensation expense exceeding 50% of our adjusted net revenues.
- Our Relocation Strategy: While the expenses, expense savings and EPU impact we expect will result from our Relocation Strategy are presented with numerical specificity, and we believe these figures to be reasonable as of the date of this report, the uncertainties surrounding the assumptions on which our estimates are based create a significant risk that our current estimates may not be realized. These assumptions include:



- the amount and timing of employee relocation costs, severance and overlapping compensation and occupancy costs we experience; and
- the timing for execution of each phase of our relocation implementation plan.
- Our 2020 Margin Target: While our 2020 Margin Target is presented with numerical specificity, and we believe the target to be reasonable as of the date of this report, the uncertainties surrounding the assumptions on which the 2020 Margin Target is based create a significant risk that these assumptions may not be realized. These assumptions include:
  - the levels of positive net flows into our investment services;
  - the level of growth (in terms of additional AUM) in our alternatives product business;
  - the rate of increase in our fixed costs due to inflation and similar factors, the transitional costs related to our relocation strategy and the timing of such costs, the success we have in achieving planned new cost reductions (including those relating to our relocation strategy) and the timing of such cost reductions, and the investments we make in our business; and
  - general conditions of the markets in which our business operates, including modest appreciation in both equity and fixed income total investment returns.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes in AB Holding's market risk from the information provided under "*Quantitative and Qualitative Disclosures About Market Risk*" in Part II, Item 7A of AB Holding's Form 10-K for the year ended December 31, 2017.

### **Item 4. Controls and Procedures**

#### ***Disclosure Controls and Procedures***

Each of AB Holding and AB maintains a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed in our reports under the Exchange Act is (i) recorded, processed, summarized and reported in a timely manner, and (ii) accumulated and communicated to management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), to permit timely decisions regarding our disclosure.

As of the end of the period covered by this report, management carried out an evaluation, under the supervision and with the participation of the CEO and the CFO, of the effectiveness of the design and operation of the disclosure controls and procedures. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures are effective.

#### ***Changes in Internal Control over Financial Reporting***

No change in our internal control over financial reporting occurred during the third quarter of 2018 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Part II****OTHER INFORMATION****Item 1. Legal Proceedings**

See Note 8 to the condensed financial statements contained in Part I, Item 1.

**Item 1A. Risk Factors**

In AB Holding's 10-K for the year ended December 31, 2017, we indicated that AB's revenues and results of operations depend on the market value and composition of AB's AUM, which can fluctuate significantly based on various factors. We then described these factors, one of which, market factors, has evolved significantly during October 2018.

Market volatility has accelerated significantly during October 2018, and has accelerated during October, resulting from increasing concerns about global trade wars, the slowing pace of global growth, inflation and more aggressive monetary policy in the U.S. These factors may adversely impact the global economy and the capital markets, as a result of which AB's AUM and revenues would be expected to decline.

Otherwise, there have been no material changes in our risk factors from those disclosed in AB Holding's Form 10-K for the year ended December 31, 2017.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

There were no AB Holding Units sold by AB Holding in the period covered by this report that were not registered under the Securities Act.

Each quarter, since the third quarter of 2011, AB has implemented plans to repurchase AB Holding Units pursuant to Rules 10b5-1 and 10b-18 under the Exchange Act. The plan adopted during the third quarter of 2018 expired at the close of business on October 22, 2018. AB may adopt additional plans in the future to engage in open-market purchases of AB Holding Units to help fund anticipated obligations under the firm's incentive compensation award program and for other corporate purposes. See Note 3 to the condensed financial statements contained in Part I, Item 1.

AB Holding Units bought by us or one of our affiliates during the third quarter of 2018 are as follows:

**ISSUER PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>Total Number of AB Holding Units Purchased</b>	<b>Average Price Paid Per AB Holding Unit, net of Commissions</b>	<b>Total Number of AB Holding Units Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number (or Approximate Dollar Value) of AB Holding Units that May Yet Be Purchased Under the Plans or Programs</b>
7/1/18 - 7/31/18 <sup>(1)(2)</sup>	242,062	\$ 29.21	—	—
8/1/18 - 8/31/18 <sup>(2)</sup>	913,873	29.68	—	—
9/1/18 - 9/30/18 <sup>(2)</sup>	453,373	30.42	—	—
<b>Total</b>	<b>1,609,308</b>	<b>\$ 29.81</b>	<b>—</b>	<b>—</b>

<sup>(1)</sup> During the third quarter of 2018, AB purchased from employees 416 AB Holding Units to allow them to fulfill statutory withholding tax requirements at the time of distribution of long-term incentive compensation awards.

- (2) During the third quarter of 2018, AB purchased 1,608,892 AB Holding Units on the open market pursuant to a Rule 10b5-1 plan to help fund anticipated obligations under our incentive compensation award program.

AB Units bought by us or one of our affiliates during the third quarter of 2018 are as follows:

**ISSUER PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>Total Number of AB Units Purchased</b>	<b>Average Price Paid Per AB Unit, net of Commissions</b>	<b>Total Number of AB Units Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number (or Approximate Dollar Value) of AB Units that May Yet Be Purchased Under the Plans or Programs</b>
7/1/18 - 7/31/18	—	\$ —	—	—
8/1/18 - 8/31/18	—	—	—	—
9/1/18 - 9/30/18 <sup>(1)</sup>	796	30.21	—	—
<b>Total</b>	<b>796</b>	<b>\$ 30.21</b>	<b>—</b>	<b>—</b>

<sup>(1)</sup> During the third quarter of 2018, AB purchased 796 AB Units in private transactions.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

**Iran Threat Reduction and Syria Human Rights Act**

AB, AB Holding and their global subsidiaries had no transactions or activities requiring disclosure under the Iran Threat Reduction and Syria Human Rights Act (“**Iran Act**”), nor were they involved in the AXA Group matters described immediately below.

The non-U.S. based subsidiaries of AXA operate in compliance with applicable laws and regulations of the various jurisdictions in which they operate, including applicable international (United Nations and European Union) laws and regulations. While AXA Group companies based and operating outside the United States generally are not subject to U.S. law, as an international group, AXA has in place policies and standards (including the AXA Group International Sanctions Policy) that apply to all AXA Group companies worldwide and often impose requirements that go well beyond local law. For additional information regarding AXA, see *Note 1 to the condensed financial statements in Part 1, Item 1.*

AXA has informed us that AXA Konzern AG, an AXA insurance subsidiary organized under the laws of Germany, provides, accident and health insurance to diplomats based at the Iranian embassy in Berlin, Germany. The total annual premium of these policies is approximately \$139,700 before tax and the annual net profit arising from these policies, which is difficult to calculate with precision, is estimated to be \$24,272.

AXA has informed us that AXA Belgium, an AXA insurance subsidiary organized under the laws of Belgium, has two policies providing for car insurance for Global Trading NV, who were designated on 17th May 2018 under (E.O.) 13224, and subsequently changed its name to Energy Engineers Procurement & Construction on August 20, 2018. The total annual premium of these policies is approximately \$6,559 before tax and the annual net profit arising from these policies, which is difficult to calculate with precision, is estimated to be \$983.

In addition, AXA has informed us that AXA Insurance Ireland, an AXA insurance subsidiary, provides statutorily required car insurance under four separate policies to the Iranian Embassy in Dublin, Ireland. AXA has informed us that compliance with the Declined Cases Agreement of the Irish Government prohibits the cancellation of these policies unless another insurer is willing to assume the coverage. The total annual premium for these policies is approximately \$7,115 and the annual net profit arising from these policies, which is difficult to calculate with precision, is estimated to be \$853.

Also, AXA has informed us that AXA Sigorta, a subsidiary of AXA organized under the laws of Republic of Turkey, provides car insurance coverage for vehicle pools of the Iranian General Consulate and the Iranian Embassy in Istanbul, Turkey. Motor third party liability insurance coverage is compulsory in Turkey and cannot be canceled unilaterally. The total annual premium in respect of these policies is approximately \$3,150 and the annual net profit, which is difficult to calculate with precision, is estimated to be \$473.

Additionally, AXA has informed us that AXA Winterthur, an AXA insurance subsidiary organized under the laws of Switzerland, provides Naftiran Intertrade, a wholly-owned subsidiary of the Iranian state-owned National Iranian Oil Company, with life, disability and accident coverage for its employees. In addition, AXA Winterthur also provides car and property insurance coverage for the Iranian Embassy in Bern. The provision of these forms of coverage is mandatory in Switzerland. The total annual premium of these policies is approximately \$396,597 and the annual net profit arising from these policies, which is difficult to calculate with precision, is estimated to be \$59,489.

In addition, AXA has informed us that AXA Egypt, an AXA insurance subsidiary organized under the laws of Egypt, provides the Iranian state-owned Iran Development Bank two life insurance contracts, covering individuals who have loans with the bank. The total annual premium of these policies is approximately \$19,839 and annual net profit arising from these policies, which is difficult to calculate with precision, is estimated to be \$2,000.

Furthermore, AXA has informed us that AXA XL, which AXA acquired during the third quarter of 2018, through various non-U.S. subsidiaries, provides insurance to marine policyholders located outside of the U.S. or reinsurance coverage to non-U.S. insurers of marine risks as well as mutual associations of ship owners that provide their members with protection and liability coverage. The provision of these coverages may involve entities or activities related to Iran, including transporting crude oil, petrochemicals and refined petroleum products. AXA XL's non-U.S. subsidiaries insure or reinsure multiple voyages and fleets containing multiple ships, so they are unable to attribute gross revenues and net profits from such marine policies to activities with Iran. As the activities of these insureds and reinsureds are permitted under applicable laws and regulations, AXA XL intends for its non-U.S. subsidiaries to continue providing such coverage to its insureds and reinsureds to the extent permitted by applicable law.

Lastly, a non-U.S. subsidiary of AXA XL provided accident & health insurance coverage to the diplomatic personnel of the Embassy of Iran in Brussels, Belgium during the third quarter of 2018. AXA XL's non-U.S. subsidiary received no payments for this insurance during the three months ended September 30, 2018 and the aggregate payments received by this non-U.S. subsidiary for this insurance from inception through the three months ended September 30, 2018 are approximately \$73,451. Benefits of approximately \$2,994 were paid to beneficiaries during the three months ended September 30, 2018. These activities are permitted pursuant to applicable law. The policy has been cancelled and is no longer in force.

The aggregate annual premium for the above-referenced insurance policies is approximately \$646,411, representing approximately 0.0007% of AXA's 2017 consolidated revenues, which exceed \$100 billion. The related net profit, which is difficult to calculate with precision, is estimated to be \$88,070, representing approximately 0.002% of AXA's 2017 aggregate net profit.

**Item 6. Exhibits**

31.1	<a href="#">Certification of Mr. Bernstein furnished pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2	<a href="#">Certification of Mr. Weisenseel furnished pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1	<a href="#">Certification of Mr. Bernstein furnished for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2	<a href="#">Certification of Mr. Weisenseel furnished for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
99.1	<a href="#">Part I, Items 1 through 4 of the AllianceBernstein L.P. Quarterly Report on Form 10-Q for the quarter ended September 30, 2018.</a>
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: October 24, 2018

**ALLIANCEBERNSTEIN HOLDING L.P.**

By: /s/ John C. Weisenseel  
John C. Weisenseel  
Chief Financial Officer

By: /s/ William R. Siemers  
William R. Siemers  
Chief Accounting Officer

I, Seth P. Bernstein, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AllianceBernstein Holding L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 24, 2018

/s/ Seth P. Bernstein

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Seth P. Bernstein  
Chief Executive Officer  
AllianceBernstein Holding L.P.

I, John C. Weisenseel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AllianceBernstein Holding L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 24, 2018

/s/ John C. Weisenseel

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John C. Weisenseel

Chief Financial Officer

AllianceBernstein Holding L.P.



CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of AllianceBernstein Holding L.P. (the "Company") on Form 10-Q for the period ending September 30, 2018 to be filed with the Securities and Exchange Commission on or about October 24, 2018 (the "Report"), I, Seth P. Bernstein, Chief Executive Officer of the Company, certify, for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Exchange Act; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 24, 2018

/s/ Seth P. Bernstein

\_\_\_\_\_  
Seth P. Bernstein  
Chief Executive Officer  
AllianceBernstein Holding L.P.

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of AllianceBernstein Holding L.P. (the “Company”) on Form 10-Q for the period ending September 30, 2018 to be filed with the Securities and Exchange Commission on or about October 24, 2018 (the “Report”), I, John C. Weisenseel, Chief Financial Officer of the Company, certify, for the purpose of complying with Rule 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Exchange Act; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 24, 2018

/s/ John C. Weisenseel

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John C. Weisenseel

Chief Financial Officer

AllianceBernstein Holding L.P.

Part I  
FINANCIAL INFORMATION

**Item 1. Financial Statements**

Exhibit 99.1

**ALLIANCEBERNSTEIN L.P.  
AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Financial Condition**  
(in thousands, except unit amounts)  
(unaudited)

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 607,109	\$ 671,930
Cash and securities segregated, at fair value (cost: \$1,262,899 and \$816,350)	1,262,906	816,350
Receivables, net:		
Brokers and dealers	303,542	199,690
Brokerage clients	1,627,419	1,647,059
AB funds fees	209,677	212,115
Other fees	111,231	124,164
Investments:		
Long-term incentive compensation-related	58,414	66,034
Other	420,133	377,555
Assets of consolidated company-sponsored investment funds:		
Cash and cash equivalents	10,438	326,518
Investments	303,301	1,246,283
Other assets	9,095	35,397
Furniture, equipment and leasehold improvements, net	158,475	157,569
Goodwill	3,066,700	3,066,700
Intangible assets, net	85,463	105,784
Deferred sales commissions, net	16,738	30,126
Other assets	297,995	211,893
<b>Total assets</b>	<b>\$ 8,548,636</b>	<b>\$ 9,295,167</b>
<b>LIABILITIES, REDEEMABLE NON-CONTROLLING INTEREST AND CAPITAL</b>		
Liabilities:		
Payables:		
Brokers and dealers	\$ 204,986	\$ 237,861
Securities sold not yet purchased	20,961	29,961
Brokerage clients	2,781,140	2,229,371
AB mutual funds	50,436	82,967
Accounts payable and accrued expenses	373,596	515,660
Liabilities of consolidated company-sponsored investment funds	8,579	698,101
Accrued compensation and benefits	664,947	270,610
Debt	398,242	565,745
<b>Total liabilities</b>	<b>4,502,887</b>	<b>4,630,276</b>

	September 30, 2018	December 31, 2017
Commitments and contingencies (See Note 13)		
Redeemable non-controlling interest	103,997	601,587
Capital:		
General Partner	40,553	41,221
Limited partners: 268,565,762 and 268,659,333 units issued and outstanding	4,105,882	4,168,841
Receivables from affiliates	(11,630)	(11,494)
AB Holding Units held for long-term incentive compensation plans	(86,961)	(42,688)
Accumulated other comprehensive loss	(107,777)	(94,140)
<b>Partners' capital attributable to AB Unitholders</b>	<b>3,940,067</b>	<b>4,061,740</b>
Non-redeemable non-controlling interests in consolidated entities	1,685	1,564
<b>Total capital</b>	<b>3,941,752</b>	<b>4,063,304</b>
<b>Total liabilities, redeemable non-controlling interest and capital</b>	<b>\$ 8,548,636</b>	<b>\$ 9,295,167</b>

See Accompanying Notes to Condensed Consolidated Financial Statements.

**ALLIANCEBERNSTEIN L.P.**  
**AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Income**  
(in thousands, except per unit amounts)  
(unaudited)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Revenues:</b>				
Investment advisory and services fees	\$ 610,063	\$ 543,107	\$ 1,782,287	\$ 1,572,560
Bernstein research services	103,581	108,385	324,192	330,596
Distribution revenues	104,488	106,042	317,610	302,745
Dividend and interest income	21,942	17,619	71,351	51,023
Investment gains (losses)	565	18,808	26,860	68,122
Other revenues	24,012	24,902	76,548	71,532
Total revenues	<u>864,651</u>	<u>818,863</u>	<u>2,598,848</u>	<u>2,396,578</u>
Less: Interest expense	14,475	6,713	36,147	17,198
Net revenues	<u>850,176</u>	<u>812,150</u>	<u>2,562,701</u>	<u>2,379,380</u>
<b>Expenses:</b>				
Employee compensation and benefits	357,442	329,777	1,059,515	979,387
Promotion and servicing:				
Distribution-related payments	106,372	106,106	322,827	300,951
Amortization of deferred sales commissions	4,651	7,629	17,362	25,015
Trade execution, marketing, T&E and other	50,793	50,266	164,095	155,993
General and administrative:				
General and administrative	107,526	128,712	337,596	360,395
Real estate (credit) charges	(155)	18,655	6,490	39,400
Contingent payment arrangements	52	(140)	157	215
Interest on borrowings	2,711	2,105	7,952	6,227
Amortization of intangible assets	6,965	7,013	20,753	20,921
Total expenses	<u>636,357</u>	<u>650,123</u>	<u>1,936,747</u>	<u>1,888,504</u>
<b>Operating income</b>	<b>213,819</b>	<b>162,027</b>	<b>625,954</b>	<b>490,876</b>
Income taxes	9,419	4,547	32,782	24,869
<b>Net income</b>	<b>204,400</b>	<b>157,480</b>	<b>593,172</b>	<b>466,007</b>
Net income of consolidated entities attributable to non-controlling interests	726	16,526	23,637	50,013
<b>Net income attributable to AB Unitholders</b>	<b><u>\$ 203,674</u></b>	<b><u>\$ 140,954</u></b>	<b><u>\$ 569,535</u></b>	<b><u>\$ 415,994</u></b>
<b>Net income per AB Unit:</b>				
<b>Basic</b>	<b><u>\$ 0.75</u></b>	<b><u>\$ 0.53</u></b>	<b><u>\$ 2.09</u></b>	<b><u>\$ 1.54</u></b>
<b>Diluted</b>	<b><u>\$ 0.75</u></b>	<b><u>\$ 0.52</u></b>	<b><u>\$ 2.09</u></b>	<b><u>\$ 1.54</u></b>

See Accompanying Notes to Condensed Consolidated Financial Statements.

**ALLIANCEBERNSTEIN L.P.  
AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Comprehensive Income**  
(in thousands)  
(unaudited)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Net income	\$ 204,400	\$ 157,480	\$ 593,172	\$ 466,007
Other comprehensive income (loss):				
Foreign currency translation adjustment, before reclassification and tax	(4,154)	7,735	(14,889)	24,091
Less: reclassification adjustment for losses included in net income upon liquidation	—	—	(100)	—
Foreign currency translation adjustments, before tax	(4,154)	7,735	(14,789)	24,091
Income tax benefit	—	—	—	—
Foreign currency translation adjustments, net of tax	(4,154)	7,735	(14,789)	24,091
Unrealized gains on investments:				
Unrealized (losses) gains arising during period	—	(4)	—	6
Less: reclassification adjustment for gains included in net income	—	—	—	—
Change in unrealized (losses) gains on investments	—	(4)	—	6
Income tax benefit	—	5	—	3
Unrealized gains on investments, net of tax	—	1	—	9
Changes in employee benefit related items:				
Amortization of prior service cost	6	6	17	18
Recognized actuarial gain	285	295	853	818
Changes in employee benefit related items	291	301	870	836
Income tax expense	(5)	(2)	(121)	(81)
Employee benefit related items, net of tax	286	299	749	755
Other	—	—	374	—
Other comprehensive (loss) income	(3,868)	8,035	(13,666)	24,855
Less: Comprehensive income in consolidated entities attributable to non-controlling interests	721	16,554	23,608	50,990
<b>Comprehensive income attributable to AB Unitholders</b>	<b>\$ 199,811</b>	<b>\$ 148,961</b>	<b>\$ 555,898</b>	<b>\$ 439,872</b>

See Accompanying Notes to Condensed Consolidated Financial Statements.

**ALLIANCEBERNSTEIN L.P. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Cash Flows**  
(in thousands)  
(unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>		
<b>Net income</b>	<b>\$ 593,172</b>	<b>\$ 466,007</b>
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred sales commissions	17,362	25,015
Non-cash long-term incentive compensation expense	13,051	26,947
Depreciation and other amortization	52,599	49,995
Unrealized (gains) losses on investments	(5,226)	3,323
Unrealized gains on investments of consolidated company-sponsored investment funds	(23,755)	(33,062)
Other, net	585	10,195
<b>Changes in assets and liabilities:</b>		
(Increase) decrease in segregated cash and securities	(446,556)	161,531
(Increase) decrease in receivables	(179,020)	8,079
Increase in investments	(30,130)	(76,780)
Decrease (increase) in investments of consolidated company-sponsored investment funds	966,737	(180,966)
(Increase) decrease in deferred sales commissions	(3,974)	1,871
Increase in other assets	(134,259)	(33,003)
(Decrease) increase in other assets and liabilities of consolidated company-sponsored investment funds, net	(663,220)	327,284
Increase (decrease) in payables	584,282	(58,126)
(Decrease) increase in accounts payable and accrued expenses	(22,908)	23,982
Increase in accrued compensation and benefits	395,643	358,586
<b>Net cash provided by operating activities</b>	<b>1,114,383</b>	<b>1,080,878</b>
<b>Cash flows from investing activities:</b>		
Purchases of investments	—	(11)
Proceeds from sales of investments	—	10
Purchases of furniture, equipment and leasehold improvements	(26,993)	(24,952)
Proceeds from sales of furniture, equipment and leasehold improvements	—	39
<b>Net cash used in investing activities</b>	<b>(26,993)</b>	<b>(24,914)</b>
<b>Cash flows from financing activities:</b>		
Repayment of commercial paper, net	(97,303)	(220,363)
(Repayment) proceeds of bank loans	(75,000)	—
(Decrease) increase in overdrafts payable	(39,025)	66,134
Distributions to General Partner and Unitholders	(652,991)	(489,049)
Redemptions of investments in consolidated company-sponsored investment funds, net	(518,601)	(8,373)
Capital contributions to non-controlling interests in consolidated entities	—	(43,217)
Purchase of non-controlling interest	—	(1,833)
Capital contributions (to) from affiliates	(1,344)	79
Payments of contingent payment arrangements	(1,146)	(6,344)
Additional investments by AB Holding with proceeds from exercise of compensatory options to buy AB Holding Units	10,802	17,672
Purchases of AB Holding Units to fund long-term incentive compensation plan awards, net	(82,710)	(134,186)
Purchases of AB Units	(129)	(993)

Debt issuance costs	(1,705)	—
<b>Net cash used in financing activities</b>	<b>(1,459,152)</b>	<b>(820,473)</b>
Effect of exchange rate changes on cash and cash equivalents	(9,139)	17,458
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(380,901)</b>	<b>252,949</b>
Cash and cash equivalents as of beginning of the period	998,448	994,510
<b>Cash and cash equivalents as of end of the period</b>	<b>\$ 617,547</b>	<b>\$ 1,247,459</b>

See Accompanying Notes to Condensed Consolidated Financial Statements.



**ALLIANCEBERNSTEIN L.P.**  
**AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2018**  
(unaudited)

The words “we” and “our” refer collectively to AllianceBernstein L.P. and its subsidiaries (“AB”), or to their officers and employees. Similarly, the word “company” refers to AB. These statements should be read in conjunction with AB’s audited consolidated financial statements included in AB’s Form 10-K for the year ended December 31, 2017.

**1. Business Description Organization and Basis of Presentation**

*Business Description*

We provide research, diversified investment management and related services globally to a broad range of clients. Our principal services include:

- Institutional Services – servicing our institutional clients, including private and public pension plans, foundations and endowments, insurance companies, central banks and governments worldwide, and affiliates such as AXA S.A. (“AXA”), AXA Equitable Holdings, Inc. (“EQH”) and their respective subsidiaries, by means of separately-managed accounts, sub-advisory relationships, structured products, collective investment trusts, mutual funds, hedge funds and other investment vehicles.
- Retail Services – servicing our retail clients, primarily by means of retail mutual funds sponsored by AB or an affiliated company, sub-advisory relationships with mutual funds sponsored by third parties, separately-managed account programs sponsored by financial intermediaries worldwide and other investment vehicles.
- Private Wealth Management Services – servicing our private clients, including high-net-worth individuals and families, trusts and estates, charitable foundations, partnerships, private and family corporations, and other entities, by means of separately-managed accounts, hedge funds, mutual funds and other investment vehicles.
- Bernstein Research Services – servicing institutional investors, such as pension fund, hedge fund and mutual fund managers, seeking high-quality fundamental research, quantitative services and brokerage-related services in equities and listed options.

We also provide distribution, shareholder servicing, transfer agency services and administrative services to the mutual funds we sponsor.

Our high-quality, in-depth research is the foundation of our business. Our research disciplines include economic, fundamental equity, fixed income and quantitative research. In addition, we have experts focused on multi-asset strategies, wealth management and alternative investments.

We provide a broad range of investment services with expertise in:

- Actively-managed equity strategies, with global and regional portfolios across capitalization ranges, concentration ranges and investment strategies, including value, growth and core equities;
- Actively-managed traditional and unconstrained fixed income strategies, including taxable and tax-exempt strategies;
- Passive management, including index and enhanced index strategies;
- Alternative investments, including hedge funds, fund of funds and private equity (*e.g.*, direct real estate investing and direct lending); and
- Multi-asset solutions and services, including dynamic asset allocation, customized target-date funds and target-risk funds.

Our services span various investment disciplines, including market capitalization (*e.g.*, large-, mid- and small-cap equities), term (*e.g.*, long-, intermediate- and short-duration debt securities), and geographic location (*e.g.*, U.S., international, global, emerging markets, regional and local), in major markets around the world.

### Organization

During the second quarter of 2018, AXA Equitable Holdings, Inc. ("EQH"), the holding company for a diversified financial services organization, conducted an initial public offering; AXA, a French holding company for AXA Group, a worldwide leader in life, property and casualty and health insurance and asset management owns approximately 72% of the outstanding common stock of EQH as of September 30, 2018. AXA has announced its intention to sell its entire interest in EQH over time, subject to market conditions and other factors. AXA is under no obligation to do so and retains the sole discretion to determine the timing of any future sales of shares of EQH common stock.

As of September 30, 2018, EQH owns approximately 3.9% of the issued and outstanding units representing assignments of beneficial ownership of limited partnership interests in AllianceBernstein Holding L.P. ("AB Holding Units"). AllianceBernstein Corporation (an indirect wholly-owned subsidiary of EQH, "General Partner") is the general partner of both AllianceBernstein Holding L.P. ("AB Holding") and AB. AllianceBernstein Corporation owns 100,000 general partnership units in AB Holding and a 1% general partnership interest in AB.

As of September 30, 2018, the ownership structure of AB, including limited partnership units outstanding as well as the general partner's 1% interest, is as follows:

EQH and its subsidiaries	63.7%
AB Holding	35.5
Unaffiliated holders	0.8
	100.0%

Including both the general partnership and limited partnership interests in AB Holding and AB, EQH and its subsidiaries had an approximate 65.1% economic interest in AB as of September 30, 2018.

### Basis of Presentation

The interim condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the interim results, have been made. The preparation of the condensed consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the interim reporting periods. Actual results could differ from those estimates. The condensed consolidated statement of financial condition as of December 31, 2017 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP").

### Principles of Consolidation

The condensed consolidated financial statements include AB and its majority-owned and/or controlled subsidiaries, and the consolidated entities that are considered to be variable interest entities ("VIEs") and voting interest entities ("VOEs") in which AB has a controlling financial interest. Non-controlling interests on the condensed consolidated statements of financial condition include the portion of consolidated company-sponsored investment funds in which we do not have direct equity ownership. All significant inter-company transactions and balances among the consolidated entities have been eliminated.

### Reclassification

During 2018, prior period amounts for payments to financial intermediaries for administrative services, sub-accounting services and maintenance of books and records for certain funds previously presented as distribution-related payments are now presented as trade execution, marketing, T&E and other expenses in the condensed consolidated statements of income to conform to the current period's presentation.

## 2. Significant Accounting Policies

### *Recently Adopted Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*, which outlines a single comprehensive revenue recognition model for all contracts with customers and supersedes most of the existing revenue recognition requirements. We adopted this new standard on January 1, 2018 on a modified retrospective basis for contracts that were not completed as of the date of adoption.

The new standard did not change the timing of revenue recognition for our base fees, distribution revenues, shareholder servicing fees and broker-dealer revenues. However, performance-based fees, which, prior to the adoption of ASC 606, were recognized at the end of the applicable measurement period when no risk of reversal remained, and carried-interest distributions received (considered performance-based fees), recorded as deferred revenues until no risk of reversal remained, may in certain instances be recognized earlier under the new standard, if it is probable that significant reversal of performance-based fees recognized will not occur.

On January 1, 2018, we recorded a cumulative effect adjustment, net of tax, of a \$35.0 million increase to partners’ capital in the condensed consolidated statement of financial condition. This amount represents carried interest distributions of \$77.9 million previously received, net of revenue sharing payments to investment team members of \$42.7 million, with respect to which it is probable that significant reversal will not occur.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendment addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. We adopted this standard on January 1, 2018. The adoption of this standard did not have a material impact on our financial condition or results of operations.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*. The amendment is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. We adopted this standard on January 1, 2018. The adoption of this standard did not have a material impact on our financial condition or results of operations.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The new standard requires that the statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Companies are also required to reconcile such total amounts in the balance sheet and disclose the nature of the restrictions. We adopted this standard on January 1, 2018. The adoption of this standard did not have a material impact on our financial condition or results of operations.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendment requires that an employer disaggregate the service cost component from the other components of net benefit costs on the income statement. We adopted this standard on January 1, 2018. The adoption of this standard did not have a material impact on our financial condition or results of operations.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation, Scope of Modification Accounting*. The amendment provides clarity and reduces both diversity in practice and cost and complexity when applying the guidance in Topic 718, Compensation - Stock Compensation, to a change to the terms or conditions of a share-based payment award. We adopted this standard on January 1, 2018. The adoption of this standard did not have a material impact on our financial condition or results of operations.

### *Accounting Pronouncements Not Yet Adopted*

In February 2016, the FASB issued ASU 2016-02, *Leases*. This pronouncement, along with subsequent ASUs issued to clarify certain provisions of ASU 2016-02, requires lessees to record most leases on their balance sheet while also disclosing key information about those lease arrangements. The classification criteria to distinguish between finance and operating leases are generally consistent with the classification criteria to distinguish between capital and operating leases under existing lease accounting guidance. This pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. We plan to adopt the new standard for our fiscal year beginning January 1, 2019, using the simplified transition method.

As of January 1, 2019, we expect to record an increase in assets ranging between \$400 million to \$450 million and an increase in liabilities ranging between \$550 million to \$600 million, respectively, on our statement of financial condition as a result

of recognizing right-of-use assets and lease liabilities for our real estate leases. The right-of-use assets recognized as of January 1, 2019 are substantially net of deferred rent and liabilities associated with previously recognized impairments as of December 31, 2018. These estimated ranges are based on our anticipated real estate lease portfolio as of January 1, 2019, and it does not include the potential impacts of re-measurement due to changes in our assessment of the lease term subsequent to our adoption of the standard. In addition, we are evaluating the impact of recording right-of-use assets and lease liabilities for non-real estate leases on our statement of financial condition. The adoption of this standard will not have a material impact on our results of operations.

In June 2016, the FASB issued ASU 2016-03, *Financial Instruments - Credit Losses (Topic 326)*. This new guidance relates to the accounting for credit losses on financial instruments. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The new guidance is effective for financial statements issued for fiscal years ending after December 15, 2019, with early adoption permitted. Management currently is evaluating the impact that adoption of this standard will have on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. As a result of the revised guidance, a goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The revised guidance will be applied prospectively, and is effective in 2020. The revised guidance is not expected to have a material impact on our financial condition or results of operations.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which permits a company to reclassify the disproportionate income tax effects of the 2017 Tax Cuts and Job Act ("2017 Tax Act") on items within Accumulated Other Comprehensive Income ("AOCI") to retained earnings. The FASB refers to these amounts as "stranded tax effects." The ASU also requires certain new disclosures, some of which are applicable for all companies. The guidance is effective for all companies for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Companies may adopt the new guidance using one of two transition methods: (1) retrospective to each period (or periods) in which the income tax effect of the 2017 Tax Act related to items remaining in AOCI are recognized, or (2) at the beginning of the period of adoption. The adoption of this standard is not expected to have a material impact on our financial condition or results of operations.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The amendment modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The revised guidance is effective for all companies for fiscal years beginning after December 15, 2019, and interim periods within those years. Companies are permitted to early adopt any eliminated or modified disclosure requirements and delay adoption of the additional disclosure requirements until their effective date. The removed and modified disclosures will be adopted on a retrospective basis and the new disclosures will be adopted on a prospective basis. The revised guidance is not expected to have a material impact on our financial condition or results of operations.

In August 2018, the FASB issued ASU 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Topic 715-20)*. The amendment modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The revised guidance is effective for financial statements issued for fiscal years ending after December 15, 2020, with early adoption permitted. The revised guidance is not expected to have a material impact on our financial condition or results of operations.

#### *Revenue Recognition*

##### Investment advisory and services fees

AB provides asset management services by managing customer assets and seeking to deliver investment returns to investors. Each investment management contract between AB and a customer creates a distinct, separately identifiable performance obligation for each day the customer's assets are managed as the customer can benefit from each day of service. In accordance with ASC 606, a series of distinct goods and services that are substantially the same and have the same pattern of transfer to the customer are treated as a single performance obligation. Accordingly, we have determined that our investment and advisory services are performed over time and entitle us to variable consideration earned based upon the value of the investors' assets under management ("AUM").

We calculate AUM using established market-based valuation methods and fair valuation (non-observable market) methods. Market-based valuation methods include: last sale/settle prices from an exchange for actively-traded listed equities, options and futures; evaluated bid prices from recognized pricing vendors for fixed income, asset-backed or mortgage-backed issues; mid prices from recognized pricing vendors and brokers for credit default swaps; and quoted bids or spreads from pricing vendors and brokers for other derivative products. Fair valuation methods include: discounted cash flow models, evaluation of assets versus liabilities or any other methodology that is validated and approved by our Valuation Committee (*see paragraph immediately below* for additional information about our Valuation Committee). Fair valuation methods are used only where AUM cannot be valued using market-based valuation methods, such as in the case of private equity or illiquid securities.

The Valuation Committee, which consists of senior officers and employees, is responsible for overseeing the pricing and valuation of all investments held in client and AB portfolios. The Valuation Committee has adopted a Statement of Pricing Policies describing principles and policies that apply to pricing and valuing investments held in these portfolios. We also have a Pricing Group, which reports to the Valuation Committee and is responsible for overseeing the pricing process for all investments.

We record as revenue investment advisory and services base fees, which we generally calculate as a percentage of AUM. At month-end, all the components of the transaction price (*i.e.*, the base fee calculation) are no longer variable and the value of the consideration is determined. These fees are not subject to claw back and there is minimal probability that a significant reversal of the revenue recorded will occur.

The transaction price for the asset management performance obligation for certain investment advisory contracts, including those associated with hedge funds or other alternative investments, provide for a performance-based fee (including carried interest), in addition to a base advisory fee, which is calculated as either a percentage of absolute investment results or a percentage of investment results in excess of a stated benchmark over a specified period of time. The performance-based fees are forms of variable consideration and are therefore excluded from the transaction price until it becomes probable that there will not be significant reversal of the cumulative revenue recognized. At each reporting date, we evaluate the constraining factors, *discussed below*, surrounding the variable consideration to determine the extent to which, if any, revenues associated with the performance-based fee can be recognized.

Constraining factors impacting the amount of variable consideration included in the transaction price include: the contractual claw-back provisions to which the variable consideration is subject, the length of time to which the uncertainty of the consideration is subject, the number and range of possible consideration amounts, the probability of significant fluctuations in the fund's market value, the level at which the fund's value exceeds the contractual threshold required to earn such a fee, and the materiality of the amount being evaluated.

Prior to the adoption of ASC 606 on January 1, 2018, we recognized performance-based fees at the end of the applicable measurement period when no risk of reversal remained, and carried-interest distributions received as deferred revenues until no risk of reversal remained.

#### Bernstein Research Services

Bernstein Research Services revenue consists principally of commissions received for trade execution services and providing equity research services to institutional clients. Brokerage commissions for trade execution services and related expenses are recorded on a trade-date basis when the performance obligations are satisfied. Generally, the transaction price is agreed upon at the point of each trade and based upon the number of shares traded or the value of the consideration traded. Research revenues are recognized when the transaction price is quantified, collectability is assured and significant reversal of such revenue is not probable.

#### Distribution Revenues

Two of our subsidiaries act as distributors and/or placement agents of company-sponsored mutual funds and receive distribution services fees from certain of those funds as partial reimbursement of the distribution expenses they incur. Depending upon the contractual arrangements with the customer and the specific product sold, the variable consideration can be determined in different ways, *as discussed below*, as we satisfy the performance obligation.

Most open-end U.S. funds have adopted a plan under Rule 12b-1 of the Investment Company Act that allows the fund to pay, out of assets of the fund, distribution and service fees for the distribution and sale of its shares ("Rule 12b-1 Fees"). The open-end U.S. funds have such agreements with us, and we have selling and distribution agreements pursuant to which we pay sales commissions to the financial intermediaries that distribute our open-end U.S. funds. These agreements are terminable by either party upon notice (generally 30 days) and do not obligate the financial intermediary to sell any specific amount of fund shares.

We record 12b-1 fees monthly based upon a percentage of the net asset value (“NAV”) of the funds. At month-end, the variable consideration of the transaction price is no longer constrained as the NAV can be calculated and the value of consideration is determined. These services are separate and distinct from other asset management services as the customer can benefit from these services independently of other services. We accrue the corresponding 12b-1 fees paid to sub-distributors monthly as the expenses are incurred. We are acting in a principal capacity in these transactions; as such, these revenues and expenses are recorded on a gross basis.

We offer back-end load shares in limited instances and charge the investor a contingent deferred sales charge (“CDSC”) if the investment is redeemed within a certain period. The variable consideration for these contracts is contingent upon the timing of the redemption by the investor and the value of the sale proceeds. Due to these constraining factors, we exclude the CDSC fee from the transaction price until the investor redeems the investment. Upon redemption, the cash consideration received for these contractual arrangements are recorded as reductions of unamortized deferred sales commissions.

Our Luxembourg subsidiary, the management company for most of our non-U.S. funds, earns a management fee which is accrued daily and paid monthly, at an annual rate, based on the average daily net assets of the fund. With respect to certain share classes, the management fee may also contain a component that is paid to distributors and other financial intermediaries and service providers to cover shareholder servicing and other administrative expenses (also referred to as an All-in-Fee). As we have concluded that asset management is distinct from distribution, we allocate a portion of the investment and advisory fee to distribution revenues for the servicing component based on standalone selling prices.

#### Other Revenues

Revenues from contracts with customers include a portion of other revenues, which consists primarily of shareholder servicing fees, as well as mutual fund reimbursements and other brokerage income.

We provide shareholder services, which include transfer agency, administrative and recordkeeping services provided to company-sponsored mutual funds. The consideration for these services is based on a percentage of the NAV of the fund or a fixed-fee based on the number of shareholder accounts being serviced. The revenues are recorded at month-end when the constraining factors involved with determining NAV or the number of shareholders’ accounts are resolved.

#### Non-Contractual Revenues

Dividend and interest income is accrued as earned. Investment gains and losses on the condensed consolidated statements of income include unrealized gains and losses of trading and private equity investments stated at fair value, equity in earnings of our limited partnership hedge fund investments, and realized gains and losses on investments sold.

#### *Contract Assets and Liabilities*

We use the practical expedient for contracts that have an original duration of one year or less. Accordingly, we do not consider the time value of money and, instead, accrue the incremental costs of obtaining the contract when incurred. As of September 30, 2018, the balances of contract assets and contract liabilities are not considered material and, accordingly, no further disclosures are necessary.

### 3. Revenue Recognition

See Note 2, *Significant Accounting Policies, Revenue Recognition*, for descriptions of revenues presented in the table below. The adoption of ASC 606 had no significant impact on revenue recognition during the first nine months of 2018, except for the recognition of \$49.3 million of performance fees from two funds in liquidation that is not probable of significant reversal, that under the previous revenue accounting standard would not be recognized until final liquidation. Revenues for the three and nine months ended September 30, 2018 and 2017 consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(in thousands)				
Subject to contracts with customers:				
Investment advisory and services fees				
Base fees	\$ 568,918	\$ 538,552	\$ 1,699,584	\$ 1,547,213
Performance-based fees	41,145	4,555	82,703	25,347
Bernstein research services	103,581	108,385	324,192	330,596
Distribution revenues				
All-in-management fees	62,807	64,495	193,884	177,637
12b-1 fees	22,136	23,199	66,746	71,677
Other	19,545	18,348	56,980	53,431
Other revenues				
Shareholder servicing fees	19,017	19,106	57,533	55,618
Other	4,293	4,879	15,827	12,948
	<u>841,442</u>	<u>781,519</u>	<u>2,497,449</u>	<u>2,274,467</u>
Not subject to contracts with customers:				
Dividend and interest income, net of interest expense	7,467	10,906	35,204	33,825
Investment gains (losses)	565	18,808	26,860	68,122
Other revenues	702	917	3,188	2,966
	<u>8,734</u>	<u>30,631</u>	<u>65,252</u>	<u>104,913</u>
<b>Total net revenues</b>	<b>\$ 850,176</b>	<b>\$ 812,150</b>	<b>\$ 2,562,701</b>	<b>\$ 2,379,380</b>

### 4. Long-term Incentive Compensation Plans

We maintain several unfunded, non-qualified long-term incentive compensation plans, under which we grant annual awards to employees, generally in the fourth quarter, and to members of the Board of Directors of the General Partner, who are not employed by our company or by any of our affiliates (“Eligible Directors”).

We fund our restricted AB Holding Unit awards either by purchasing AB Holding Units on the open market or purchasing newly-issued AB Holding Units from AB Holding, and then keeping all of these AB Holding Units in a consolidated rabbi trust until delivering them or retiring them. In accordance with the Amended and Restated Agreement of Limited Partnership of AB (“AB Partnership Agreement”), when AB purchases newly-issued AB Holding Units from AB Holding, AB Holding is required to use the proceeds it receives from AB to purchase the equivalent number of newly-issued AB Units, thus increasing its percentage ownership interest in AB. AB Holding Units held in the consolidated rabbi trust are corporate assets in the name of the trust and are available to the general creditors of AB.

During the three and nine months ended September 30, 2018, we purchased 1.6 million and 2.9 million AB Holding Units for \$48.0 million and \$83.2 million, respectively (on a trade date basis). These amounts reflect open-market purchases of 1.6 million and 2.8 million AB Holding Units for \$48.0 million and \$80.9 million, respectively, with the remainder relating to purchases of AB Holding Units from employees to allow them to fulfill statutory tax withholding requirements at the time of

delivery of long-term incentive compensation awards. During the three and nine months ended September 30, 2017, we purchased 0.3 million and 5.9 million AB Holding Units for \$6.9 million and \$134.6 million, respectively (on a trade date basis). These amounts reflect open-market purchases of 0.3 million and 5.2 million AB Holding Units for \$6.8 million and \$117.1 million, respectively, with the remainder relating to purchases of AB Holding Units from employees to allow them to fulfill statutory tax withholding requirements at the time of delivery of long-term incentive compensation awards. Purchases of AB Holding Units reflected on the condensed consolidated statements of cash flows are net of AB Holding Unit purchases by employees as part of a distribution reinvestment election.

Each quarter, we consider whether to implement a plan to repurchase AB Holding Units pursuant to Rules 10b5-1 and 10b-18 under the Exchange Act. A plan of this type allows a company to repurchase its shares at times when it otherwise might be prevented from doing so because of self-imposed trading blackout periods or because it possesses material non-public information. Each broker we select has the authority under the terms and limitations specified in the plan to repurchase AB Holding Units on our behalf in accordance with the terms of the plan. Repurchases are subject to regulations promulgated by the SEC as well as certain price, market volume and timing constraints specified in the plan. The plan adopted during the third quarter of 2018 expired at the close of business on October 22, 2018. We may adopt additional plans in the future to engage in open-market purchases of AB Holding Units to help fund anticipated obligations under our incentive compensation award program and for other corporate purposes.

During the first nine months of 2018 and 2017, we granted to employees and Eligible Directors 2.5 million and 2.1 million restricted AB Holding Unit awards, respectively. We used AB Holding Units repurchased during the periods and newly-issued AB Holding Units to fund these awards.

During the first nine months of 2018 and 2017, AB Holding issued 0.6 million and 1.0 million AB Holding Units, respectively, upon exercise of options to buy AB Holding Units. AB Holding used the proceeds of \$10.8 million and \$17.7 million, respectively, received from employees as payment in cash for the exercise price to purchase the equivalent number of newly-issued AB Units.

## 5. Real Estate Charges

Since 2010, we have sub-leased over one million square feet of office space. The activity in the liability account relating to our global space consolidation initiatives for the following periods is:

	<b>Nine Months Ended</b>	<b>Twelve Months</b>
	<b>September 30, 2018</b>	<b>Ended</b>
		<b>December 31, 2017</b>
	(in thousands)	
Balance as of beginning of period	\$ 113,635	\$ 112,932
Expense incurred	6,490	28,507
Deferred rent	—	7,083
Payments made	(32,868)	(39,122)
Interest accretion	3,284	4,235
<b>Balance as of end of period</b>	<b>\$ 90,541</b>	<b>\$ 113,635</b>



## 6. Net Income per Unit

Basic net income per unit is derived by reducing net income for the 1% general partnership interest and dividing the remaining 99% by the basic weighted average number of limited partnership units outstanding for each period. Diluted net income per unit is derived by reducing net income for the 1% general partnership interest and dividing the remaining 99% by the total of the diluted weighted average number of limited partnership units outstanding for each period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands, except per unit amounts)			
Net income attributable to AB Unitholders	\$ 203,674	\$ 140,954	\$ 569,535	\$ 415,994
Weighted average limited partnership units outstanding – basic	269,603	265,585	269,783	267,448
Dilutive effect of compensatory options to buy AB Holding Units	245	400	282	455
Weighted average limited partnership units outstanding – diluted	269,848	265,985	270,065	267,903
<b>Basic net income per AB Unit</b>	<b>\$ 0.75</b>	<b>\$ 0.53</b>	<b>\$ 2.09</b>	<b>\$ 1.54</b>
<b>Diluted net income per AB Unit</b>	<b>\$ 0.75</b>	<b>\$ 0.52</b>	<b>\$ 2.09</b>	<b>\$ 1.54</b>

For the three and nine months ended September 30, 2018, we excluded 824,245 options and 844,973 options, respectively, from the diluted net income computation due to their anti-dilutive effect. For both the three and nine months ended September 30, 2017, we excluded 2,427,527 options from the diluted net income computation due to their anti-dilutive effect.

## 7. Cash Distributions

AB is required to distribute all of its Available Cash Flow, as defined in the AB Partnership Agreement, to its Unitholders and to the General Partner. Available Cash Flow can be summarized as the cash flow received by AB from operations minus such amounts as the General Partner determines, in its sole discretion, should be retained by AB for use in its business, or plus such amounts as the General Partner determines, in its sole discretion, should be released from previously retained cash flow.

Typically, Available Cash Flow has been the adjusted diluted net income per unit for the quarter multiplied by the number of general and limited partnership interests at the end of the quarter. In future periods, management anticipates that Available Cash Flow will be based on adjusted diluted net income per unit, unless management determines, with the concurrence of the Board of Directors, that one or more adjustments that are made for adjusted net income should not be made with respect to the Available Cash Flow calculation.

On October 24, 2018, the General Partner declared a distribution of \$0.76 per AB Unit, representing a distribution of Available Cash Flow for the three months ended September 30, 2018. The General Partner, as a result of its 1% general partnership interest, is entitled to receive 1% of each distribution. The distribution is payable on November 15, 2018 to holders of record on November 5, 2018.

## 8. Cash and Securities Segregated Under Federal Regulations and Other Requirements

As of September 30, 2018 and December 31, 2017, \$1.3 billion and \$0.8 billion, respectively, of U.S. Treasury Bills were segregated in a special reserve bank custody account for the exclusive benefit of our brokerage customers under Rule 15c3-3 of the Exchange Act.

## 9. Investments

Investments consist of:

	September 30, 2018	December 31, 2017
	(in thousands)	
U.S. Treasury Bills	\$ 22,774	\$ 52,609
<b>Equity securities:</b>		
Long-term incentive compensation-related	43,647	51,758
Seed capital	118,158	160,672
Other	120,705	81,154
Exchange-traded options	1,100	4,981
<b>Investments in limited partnership hedge funds:</b>		
Long-term incentive compensation-related	14,767	14,276
Seed capital	101,732	22,923
Private equity (seed capital)	36,450	38,186
Time deposits	8,835	5,138
Other	10,379	11,892
<b>Total investments</b>	<b>\$ 478,547</b>	<b>\$ 443,589</b>

Total investments related to long-term incentive compensation obligations of \$58.4 million and \$66.0 million as of September 30, 2018 and December 31, 2017, respectively, consist of company-sponsored mutual funds and hedge funds. For long-term incentive compensation awards granted before 2009, we typically made investments in company-sponsored mutual funds and hedge funds that were notionally elected by plan participants and maintained them (and continue to maintain them) in a consolidated rabbi trust or separate custodial account. The rabbi trust and custodial account enable us to hold such investments separate from our other assets for the purpose of settling our obligations to participants. The investments held in the rabbi trust and custodial account remain available to the general creditors of AB.

The underlying investments of the hedge funds in which we invest include long and short positions in equity securities, fixed income securities (including various agency and non-agency asset-based securities), currencies, commodities and derivatives (including various swaps and forward contracts). These investments are valued at quoted market prices or, where quoted market prices are not available, are fair valued based on the pricing policies and procedures of the underlying funds.

U.S. Treasury Bills, the majority of which are pledged as collateral with clearing organizations, are held in our investment account. These clearing organizations have the ability by contract or custom to sell or re-pledge this collateral.

We allocate seed capital to our investment teams to help develop new products and services for our clients. A portion of our seed capital investments are equity and fixed income products, primarily in the form of separately-managed account portfolios, U.S. mutual funds, Luxembourg funds, Japanese investment trust management funds or Delaware business trusts. We also may allocate seed capital to investments in private equity funds, such as a third-party venture capital fund that invests in communications, consumer, digital media, healthcare and information technology markets. In regard to our seed capital investments, the amounts above reflect those funds in which we are not the primary beneficiary of a VIE or hold a controlling financial interest in a VOE. During 2018, our seed capital in limited partnership hedge funds increased \$78.8 million primarily due to the deconsolidation of a fund in which we have a seed investment of \$79.0 million due to no longer having a controlling financial interest. See Note 14, *Consolidated Company-Sponsored Investment Funds*, for a description of the seed capital investments that we consolidate. As of September 30, 2018 and December 31, 2017, our total seed capital investments were \$468.3 million and \$523.2 million, respectively. Seed capital investments in unconsolidated company-sponsored investment funds are valued using published net asset values or non-published net asset values if they are not listed on an active exchange but have net asset values that are comparable to funds with published net asset values and have no redemption restrictions.

In addition, we also have long positions in corporate equities and long exchange-traded options traded through our options desk.

The portion of unrealized gains (losses) for the three and nine months ended September 30, 2018 and 2017 related to equity securities held as of September 30, 2018 and 2017 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Net gains (losses) recognized during the period	\$ 3,429	\$ (1,869)	\$ (177)	\$ 15,721
Less: net gains recognized during the period on equity securities sold during the period	1,156	366	2,820	14,067
<b>Unrealized gains (losses) recognized during the period on equity securities held</b>	<b>\$ 2,273</b>	<b>\$ (2,235)</b>	<b>\$ (2,997)</b>	<b>\$ 1,654</b>

## 10. Derivative Instruments

See Note 14, *Consolidated Company-Sponsored Investment Funds*, for disclosure of derivative instruments held by our consolidated company-sponsored investment funds.

We enter into various futures, forwards, options and swaps to economically hedge certain seed capital investments. Also, we have currency forwards that help us to economically hedge certain balance sheet exposures. In addition, our options desk trades long and short exchange-traded equity options. We do not hold any derivatives designated in a formal hedge relationship under Accounting Standards Codification (“ASC”) 815-10, *Derivatives and Hedging*.

The notional value and fair value as of September 30, 2018 and December 31, 2017 for derivative instruments (excluding derivative instruments relating to our options desk trading activities *discussed below*) not designated as hedging instruments were as follows:

	Notional Value	Fair Value	
		Asset Derivatives	Liability Derivatives
	(in thousands)		
<b>September 30, 2018:</b>			
Exchange-traded futures	\$ 143,281	\$ 915	\$ 965
Currency forwards	88,091	7,888	7,622
Interest rate swaps	87,222	1,251	1,044
Credit default swaps	87,679	1,264	3,031
Total return swaps	120,455	79	1,275
<b>Total derivatives</b>	<b>\$ 526,728</b>	<b>\$ 11,397</b>	<b>\$ 13,937</b>
<b>December 31, 2017:</b>			
Exchange-traded futures	\$ 163,458	\$ 948	\$ 2,540
Currency forwards	126,503	8,306	8,058
Interest rate swaps	43,309	951	870
Credit default swaps	74,600	1,247	2,465
Total return swaps	68,106	167	390
<b>Total derivatives</b>	<b>\$ 475,976</b>	<b>\$ 11,619</b>	<b>\$ 14,323</b>

As of September 30, 2018 and December 31, 2017, the derivative assets and liabilities are included in both receivables and payables to brokers and dealers on our condensed consolidated statements of financial condition.

The gains and losses for derivative instruments (excluding our options desk trading activities *discussed below*) for the three and nine months ended September 30, 2018 and 2017 recognized in investment gains (losses) in the condensed consolidated statements of income were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Exchange-traded futures	\$ 157	\$ (3,290)	\$ 1,699	\$ (12,123)
Currency forwards	673	(62)	947	(992)
Interest rate swaps	157	151	424	(97)
Credit default swaps	(1,117)	(273)	(1,212)	(1,182)
Total return swaps	(5,625)	(1,417)	(5,665)	(5,376)
<b>Net (losses) gains on derivative instruments</b>	<b>\$ (5,755)</b>	<b>\$ (4,891)</b>	<b>\$ (3,807)</b>	<b>\$ (19,770)</b>

We may be exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments. We minimize our counterparty exposure through a credit review and approval process. In addition, we have executed various collateral arrangements with counterparties to the over-the-counter derivative transactions that require both pledging and accepting collateral in the form of cash. As of both September 30, 2018 and December 31, 2017, we held \$0.5 million of cash collateral payable to trade counterparties. This obligation to return cash is reported in payables to brokers and dealers in our condensed consolidated statements of financial condition.

Although notional amount is the most commonly used measure of volume in the derivative market, it is not used as a measure of credit risk. Generally, the current credit exposure of our derivative contracts is limited to the net positive estimated fair value of derivative contracts at the reporting date after taking into consideration the existence of netting agreements and any collateral received. A derivative with positive value (a derivative asset) indicates existence of credit risk because the counterparty would owe us if the contract were closed. Alternatively, a derivative contract with negative value (a derivative liability) indicates we would owe money to the counterparty if the contract were closed. Generally, if there is more than one derivative transaction with a single counterparty, a master netting arrangement exists with respect to derivative transactions with that counterparty to provide for aggregate net settlement.

Certain of our standardized contracts for over-the-counter derivative transactions (“ISDA Master Agreements”) contain credit risk related contingent provisions pertaining to each counterparty’s credit rating. In some ISDA Master Agreements, if the counterparty’s credit rating, or in some agreements, our assets under management (“AUM”), falls below a specified threshold, either a default or a termination event permitting the counterparty to terminate the ISDA Master Agreement would be triggered. In all agreements that provide for collateralization, various levels of collateralization of net liability positions are applicable, depending on the credit rating of the counterparty. As of September 30, 2018 and December 31, 2017, we delivered \$5.3 million and \$8.8 million, respectively, of cash collateral into brokerage accounts. We report this cash collateral in cash and cash equivalents in our condensed consolidated statements of financial condition.

As of September 30, 2018 and December 31, 2017, we held \$1.1 million and \$5.0 million, respectively, of long exchange-traded equity options, which are included in other investments on our condensed consolidated statements of financial condition. In addition, as of September 30, 2018 and December 31, 2017, we held \$10.8 million and \$13.6 million, respectively, of short exchange-traded equity options, which are included in securities sold not yet purchased on our condensed consolidated statements of financial condition. Our options desk provides our clients with equity derivative strategies and execution for exchange-traded options on single stocks, exchange-traded funds and indices. While predominately agency-based, the options desk may commit capital to facilitate a client’s transaction. Our options desk hedges the risks associated with this activity by taking offsetting positions in equities. For the three and nine months ended September 30, 2018, we recognized a \$5.7 million gain and a \$3.2 million loss, respectively, on equity options activity. For the three and nine months ended September 30, 2017, we recognized \$12.7 million and \$21.8 million, respectively, of losses on equity options activity. These losses are recognized in investment gains (losses) in the condensed consolidated statements of income.

## 11. Offsetting Assets and Liabilities

See Note 14, Consolidated Company-Sponsored Investment Funds, for disclosure of offsetting assets and liabilities of our consolidated company-sponsored investment funds.

Offsetting of assets as of September 30, 2018 and December 31, 2017 was as follows:

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Assets Presented in the Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
(in thousands)						
<b>September 30, 2018:</b>						
Securities borrowed	\$ 46,175	\$ —	\$ 46,175	\$ (42,514)	\$ —	\$ 3,661
Derivatives	\$ 11,397	\$ —	\$ 11,397	\$ —	\$ (530)	\$ 10,867
Long exchange-traded options	\$ 1,100	\$ —	\$ 1,100	\$ —	\$ —	\$ 1,100
<b>December 31, 2017:</b>						
Securities borrowed	\$ 85,371	\$ —	\$ 85,371	\$ (82,353)	\$ —	\$ 3,018
Derivatives	\$ 11,619	\$ —	\$ 11,619	\$ —	\$ (519)	\$ 11,100
Long exchange-traded options	\$ 4,981	\$ —	\$ 4,981	\$ —	\$ —	\$ 4,981

Offsetting of liabilities as of September 30, 2018 and December 31, 2017 was as follows:

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Liabilities Presented in the Statement of Financial Condition	Financial Instruments	Cash Collateral Pledged	Net Amount
(in thousands)						
<b>September 30, 2018:</b>						
Securities loaned	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Derivatives	\$ 13,937	\$ —	\$ 13,937	\$ —	\$ (5,279)	\$ 8,658
Short exchange-traded options	\$ 10,799	\$ —	\$ 10,799	\$ —	\$ —	\$ 10,799
<b>December 31, 2017:</b>						
Securities loaned	\$ 37,960	\$ —	\$ 37,960	\$ (37,922)	\$ —	\$ 38
Derivatives	\$ 14,323	\$ —	\$ 14,323	\$ —	\$ (8,794)	\$ 5,529
Short exchange-traded options	\$ 13,585	\$ —	\$ 13,585	\$ —	\$ —	\$ 13,585

Cash collateral, whether pledged or received on derivative instruments, is not considered material and, accordingly, is not disclosed by counterparty.

## 12. Fair Value

See Note 14, *Consolidated Company-Sponsored Investment Funds*, for disclosure of fair value of our consolidated company-sponsored investment funds.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.*, the “exit price”) in an orderly transaction between market participants at the measurement date. The three broad levels of fair value hierarchy are as follows:

- Level 1 – Quoted prices in active markets are available for identical assets or liabilities as of the reported date.
- Level 2 – Quoted prices in markets that are not active or other pricing inputs that are either directly or indirectly observable as of the reported date.
- Level 3 – Prices or valuation techniques that are both significant to the fair value measurement and unobservable as of the reported date. These financial instruments do not have two-way markets and are measured using management’s best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

Valuation of our financial instruments by pricing observability levels as of September 30, 2018 and December 31, 2017 was as follows (in thousands):

	Level 1	Level 2	Level 3	NAV Expedient <sup>(1)</sup>	Other	Total
<b>September 30, 2018:</b>						
Money markets	\$ 110,654	\$ —	\$ —	\$ —	\$ —	\$ 110,654
Securities segregated (U.S. Treasury Bills)	—	1,262,906	—	—	—	1,262,906
Derivatives	915	10,482	—	—	—	11,397
Investments						
U.S. Treasury Bills	—	22,774	—	—	—	22,774
Equity securities	272,053	10,028	117	312	—	282,510
Long exchange-traded options	1,100	—	—	—	—	1,100
Limited partnership hedge funds <sup>(2)</sup>	—	—	—	—	116,499	116,499
Private equity	—	—	—	36,450	—	36,450
Time deposits <sup>(3)</sup>	—	—	—	—	8,835	8,835
Other investments	—	—	—	—	10,379	10,379
Total investments	273,153	32,802	117	36,762	135,713	478,547
<b>Total assets measured at fair value</b>	<b>\$ 384,722</b>	<b>\$ 1,306,190</b>	<b>\$ 117</b>	<b>\$ 36,762</b>	<b>\$ 135,713</b>	<b>\$ 1,863,504</b>
Securities sold not yet purchased						
Short equities – corporate	\$ 10,162	\$ —	\$ —	\$ —	\$ —	\$ 10,162
Short exchange-traded options	10,799	—	—	—	—	10,799
Derivatives	965	12,972	—	—	—	13,937
Contingent payment arrangements	—	—	11,013	—	—	11,013
<b>Total liabilities measured at fair value</b>	<b>\$ 21,926</b>	<b>\$ 12,972</b>	<b>\$ 11,013</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 45,911</b>

	Level 1	Level 2	Level 3	NAV Expedient <sup>(1)</sup>	Other	Total
<b>December 31, 2017:</b>						
Money markets	\$ 62,071	\$ —	\$ —	\$ —	\$ —	\$ 62,071
Securities segregated (U.S. Treasury Bills)	—	816,350	—	—	—	816,350
Derivatives	948	10,671	—	—	—	11,619
Investments						
U.S. Treasury Bills	—	52,609	—	—	—	52,609
Equity securities	276,755	16,618	117	94	—	293,584
Long exchange-traded options	4,981	—	—	—	—	4,981
Limited partnership hedge funds <sup>(2)</sup>	—	—	—	—	37,199	37,199
Private equity	—	—	954	37,232	—	38,186
Time deposits <sup>(3)</sup>	—	—	—	—	5,138	5,138
Other investments	—	—	—	—	11,892	11,892
Total investments	281,736	69,227	1,071	37,326	54,229	443,589
<b>Total assets measured at fair value</b>	<b>\$ 344,755</b>	<b>\$ 896,248</b>	<b>\$ 1,071</b>	<b>\$ 37,326</b>	<b>\$ 54,229</b>	<b>\$ 1,333,629</b>
Securities sold not yet purchased						
Short equities – corporate	\$ 16,376	\$ —	\$ —	\$ —	\$ —	\$ 16,376
Short exchange-traded options	13,585	—	—	—	—	13,585
Derivatives	2,540	11,783	—	—	—	14,323
Contingent payment arrangements	—	—	10,855	—	—	10,855
<b>Total liabilities measured at fair value</b>	<b>\$ 32,501</b>	<b>\$ 11,783</b>	<b>\$ 10,855</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 55,139</b>

<sup>(1)</sup> Investments measured at fair value using NAV (or its equivalent) as a practical expedient.

<sup>(2)</sup> Investments in equity method investees that are not measured at fair value in accordance with GAAP.

<sup>(3)</sup> Investments carried at amortized cost that are not measured at fair value in accordance with GAAP.

One of our private equity investments (measured at fair value using NAV as a practical expedient) is a venture capital fund with a fair value of \$36.4 million and no unfunded commitment as of September 30, 2018. This partnership invests in communications, consumer, digital media, healthcare and information technology markets. The fair value of this investment has been estimated using the capital account balances provided by the partnership. The interest in this partnership cannot be redeemed without specific approval by the general partner.

Other investments include (i) an investment in a start-up company that does not have a readily available fair value (\$3.6 million and \$4.6 million as of September 30, 2018 and December 31, 2017, respectively), (ii) an investment in an equity method investee that is not measured at fair value in accordance with GAAP (\$3.6 million as of September 30, 2018 and \$4.1 million as of December 31, 2017), and (iii) broker dealer exchange memberships (\$3.1 million as of September 30, 2018 and \$3.2 million as of December 31, 2017).

We provide below a description of the fair value methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

- **Money markets:** We invest excess cash in various money market funds that are valued based on quoted prices in active markets; these are included in Level 1 of the valuation hierarchy.
- **Treasury Bills:** We hold U.S. Treasury Bills, which are primarily segregated in a special reserve bank custody account as required by Rule 15c3-3 of the Exchange Act. These securities are valued based on quoted yields in secondary markets and are included in Level 2 of the valuation hierarchy.



- **Equity securities:** Our equity securities consist principally of company-sponsored mutual funds with NAVs and various separately-managed portfolios consisting primarily of equity and fixed income mutual funds with quoted prices in active markets, which are included in Level 1 of the valuation hierarchy. In addition, some securities are valued based on observable inputs from recognized pricing vendors, which are included in Level 2 of the valuation hierarchy.
- **Derivatives:** We hold exchange-traded futures with counterparties that are included in Level 1 of the valuation hierarchy. In addition, we also hold currency forward contracts, interest rate swaps, credit default swaps, option swaps and total return swaps with counterparties that are valued based on observable inputs from recognized pricing vendors, which are included in Level 2 of the valuation hierarchy.
- **Options:** We hold long exchange-traded options that are included in Level 1 of the valuation hierarchy.
- **Private equity:** Generally, the valuation of private equity investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such investments. Private equity investments are valued initially at cost. The carrying values of private equity investments are adjusted either up or down from cost to reflect expected exit values as evidenced by financing and sale transactions with third parties, or when determination of a valuation adjustment is confirmed through ongoing review in accordance with our valuation policies and procedures. A variety of factors are reviewed and monitored to assess positive and negative changes in valuation, including current operating performance and future expectations of investee companies, industry valuations of comparable public companies, changes in market outlooks, and the third party financing environment over time. In determining valuation adjustments resulting from the investment review process, particular emphasis is placed on current company performance and market conditions. For these reasons, which make the fair value of private equity investments unobservable, equity investments are included in Level 3 of the valuation hierarchy. If private equity investments become publicly traded, they are included in Level 1 of the valuation hierarchy; provided, however, if they contain trading restrictions, publicly-traded equity investments are included in Level 2 of the valuation hierarchy until the trading restrictions expire.
- **Securities sold not yet purchased:** Securities sold not yet purchased, primarily reflecting short positions in equities and exchange-traded options, are included in Level 1 of the valuation hierarchy.
- **Contingent payment arrangements:** Contingent payment arrangements relate to contingent payment liabilities associated with various acquisitions. At each reporting date, we estimate the fair values of the contingent consideration expected to be paid based upon probability-weighted AUM and revenue projections, using unobservable market data inputs, which are included in Level 3 of the valuation hierarchy.

During the nine months ended September 30, 2018, there were no transfers between Level 1 and Level 2 securities.

The change in carrying value associated with Level 3 financial instruments carried at fair value, classified as private equity and equity securities, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Balance as of beginning of period	\$ 117	\$ 5,028	\$ 1,071	\$ 5,023
Purchases	—	—	—	—
Sales	—	—	—	—
Realized gains (losses), net	—	—	—	—
Unrealized gains (losses), net	—	(3,958)	(954)	(3,953)
<b>Balance as of end of period</b>	<b>\$ 117</b>	<b>\$ 1,070</b>	<b>\$ 117</b>	<b>\$ 1,070</b>

Transfers into and out of all levels of the fair value hierarchy are reflected at end-of-period fair values. Realized and unrealized gains and losses on Level 3 financial instruments are recorded in investment gains and losses in the condensed consolidated statements of income.

As of December 31, 2017, we had an investment in a private equity fund focused exclusively on the energy sector (fair value of \$1.0 million) that was classified as Level 3 and written off during the second quarter of 2018. This investment's valuation was based on a market approach, considering recent transactions in the fund and the industry.

We acquired Ramius Alternative Solutions LLC in 2016, CPH Capital Fondsmæglersekskab A/S in 2014 and SunAmerica's alternative investment group in 2010, all of which included contingent consideration arrangements as part of the purchase price. The change in carrying value associated with Level 3 financial instruments carried at fair value, classified as contingent payment arrangements, is as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	(in thousands)			
Balance as of beginning of period	\$ 10,960	\$ 16,777	\$ 10,855	\$ 17,589
Accretion	53	53	158	408
Change in estimates	—	(193)	—	(193)
Payments	—	(4,534)	—	(5,701)
<b>Balance as of end of period</b>	<b>\$ 11,013</b>	<b>\$ 12,103</b>	<b>\$ 11,013</b>	<b>\$ 12,103</b>

During the third quarter of 2017, we made the final contingent consideration payment relating to our 2014 acquisition and recorded a change in estimate and wrote off the remaining contingent consideration payable relating to our 2010 acquisition. As of September 30, 2018 and December 31, 2017, one acquisition-related contingent liability with a fair value of \$11.0 million and \$10.9 million, respectively, remains relating to our 2016 acquisition, which was valued using a revenue growth rate of 31% and a discount rate ranging from 1.4% to 2.3%.

#### ***Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis***

We did not have any material assets or liabilities that were measured at fair value for impairment on a nonrecurring basis during the nine months ended September 30, 2018 or during the year ended December 31, 2017.

### **13. Commitments and Contingencies**

#### ***Legal Proceedings***

With respect to all significant litigation matters, we consider the likelihood of a negative outcome. If we determine the likelihood of a negative outcome is probable and the amount of the loss can be reasonably estimated, we record an estimated loss for the expected outcome of the litigation. If the likelihood of a negative outcome is reasonably possible and we are able to determine an estimate of the possible loss or range of loss in excess of amounts already accrued, if any, we disclose that fact together with the estimate of the possible loss or range of loss. However, it is often difficult to predict the outcome or estimate a possible loss or range of loss because litigation is subject to inherent uncertainties, particularly when plaintiffs allege substantial or indeterminate damages. Such is also the case when the litigation is in its early stages or when the litigation is highly complex or broad in scope. In these cases, we disclose that we are unable to predict the outcome or estimate a possible loss or range of loss.

AB may be involved in various matters, including regulatory inquiries, administrative proceedings and litigation, some of which may allege significant damages. It is reasonably possible that we could incur losses pertaining to these matters, but we cannot currently estimate any such losses.

Management, after consultation with legal counsel, currently believes that the outcome of any individual matter that is pending or threatened, or all of them combined, will not have a material adverse effect on our results of operations, financial condition or liquidity. However, any inquiry, proceeding or litigation has an element of uncertainty; management cannot determine whether further developments relating to any individual matter that is pending or threatened, or all of them combined, will have a material adverse effect on our results of operation, financial condition or liquidity in any future reporting period.

#### 14. Consolidated Company-Sponsored Investment Funds

We regularly provide seed capital to new company-sponsored investment funds. As such, we may consolidate or de-consolidate a variety of company-sponsored investment funds each quarter. Due to the similarity of risks related to our involvement with each company-sponsored investment fund, disclosures required under the VIE model are aggregated, such as disclosures regarding the carrying amount and classification of assets.

We are not required to provide financial support to company-sponsored investment funds and only the assets of such funds are available to settle each fund's own liabilities. Our exposure to loss in regard to consolidated company-sponsored investment funds is limited to our investment in, and our management fee earned from, such funds. Equity and debt holders of such funds have no recourse to AB's assets or to the general credit of AB.

The balances of consolidated VIEs and VOEs included in our condensed consolidated statements of financial condition were as follows:

	September 30, 2018			December 31, 2017		
	VIEs	VOEs	Total	VIEs	VOEs	Total
	(in thousands)					
Cash and cash equivalents	\$ 9,736	\$ 702	\$ 10,438	\$ 326,158	\$ 360	\$ 326,518
Investments	186,386	116,915	303,301	1,189,835	56,448	1,246,283
Other assets	5,544	3,551	9,095	33,931	1,466	35,397
<b>Total assets</b>	<b>\$ 201,666</b>	<b>\$ 121,168</b>	<b>\$ 322,834</b>	<b>\$ 1,549,924</b>	<b>\$ 58,274</b>	<b>\$ 1,608,198</b>
Liabilities	\$ 6,077	\$ 2,502	\$ 8,579	\$ 695,997	\$ 2,104	\$ 698,101
Redeemable non-controlling interest	80,436	20,673	101,109	596,241	(18)	596,223
Partners' capital attributable to AB Unitholders	114,495	97,993	212,488	256,929	56,188	313,117
Non-redeemable non-controlling interests in consolidated entities	658	—	658	757	—	757
<b>Total liabilities, redeemable non-controlling interest and partners' capital</b>	<b>\$ 201,666</b>	<b>\$ 121,168</b>	<b>\$ 322,834</b>	<b>\$ 1,549,924</b>	<b>\$ 58,274</b>	<b>\$ 1,608,198</b>

During 2018, we deconsolidated a fund in which we have a seed investment of \$79.0 million due to no longer having a controlling financial interest. This VIE had significant consolidated assets and liabilities as of December 31, 2017.

### Fair Value

Cash and cash equivalents include cash on hand, demand deposits, overnight commercial paper and highly liquid investments with original maturities of three months or less. Due to the short-term nature of these instruments, the recorded value has been determined to approximate fair value.

Valuation of consolidated company-sponsored investment funds' financial instruments by pricing observability levels as of September 30, 2018 and December 31, 2017 was as follows (in thousands):

	Level 1	Level 2	Level 3	NAV Expedient	Total
<b>September 30, 2018:</b>					
Investments - VIEs	\$ 19,818	\$ 160,266	\$ 6,302	\$ —	\$ 186,386
Investments - VOEs	66,384	50,339	192	—	116,915
Derivatives - VIEs	108	2,519	—	—	2,627
Derivatives - VOEs	102	1,003	—	—	1,105
<b>Total assets measured at fair value</b>	<b>\$ 86,412</b>	<b>\$ 214,127</b>	<b>\$ 6,494</b>	<b>\$ —</b>	<b>\$ 307,033</b>
Derivatives - VIEs	519	2,994	—	—	3,513
Derivatives - VOEs	60	455	—	—	515
<b>Total liabilities measured at fair value</b>	<b>\$ 579</b>	<b>\$ 3,449</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 4,028</b>
<b>December 31, 2017:</b>					
Investments - VIEs	\$ 1,053,824	\$ 133,796	\$ 2,205	\$ 10	\$ 1,189,835
Investments - VOEs	5,491	50,898	59	—	56,448
Derivatives - VIEs	252	30,384	—	—	30,636
Derivatives - VOEs	49	251	—	—	300
<b>Total assets measured at fair value</b>	<b>\$ 1,059,616</b>	<b>\$ 215,329</b>	<b>\$ 2,264</b>	<b>\$ 10</b>	<b>\$ 1,277,219</b>
Short equities - VIEs	\$ 669,258	\$ —	\$ —	\$ —	\$ 669,258
Derivatives - VIEs	421	21,820	—	—	22,241
Derivatives - VOEs	12	619	—	—	631
<b>Total liabilities measured at fair value</b>	<b>\$ 669,691</b>	<b>\$ 22,439</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 692,130</b>

See Note 12 for a description of the fair value methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

The change in carrying value associated with Level 3 financial instruments carried at fair value within consolidated company-sponsored investment funds was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Balance as of beginning of period	\$ 5,871	\$ 2,797	\$ 2,264	\$ 5,741
Deconsolidated funds	—	—	—	(6,697)
Transfers (out) in	(406)	(35)	(82)	378
Purchases	1,247	346	7,381	5,358
Sales	(197)	(1,148)	(2,820)	(3,045)
Realized gains (losses), net	2	5	(97)	1
Unrealized (losses) gains, net	(25)	52	(158)	269
Accrued discounts	2	1	6	13
<b>Balance as of end of period</b>	<b>\$ 6,494</b>	<b>\$ 2,018</b>	<b>\$ 6,494</b>	<b>\$ 2,018</b>

The Level 3 securities primarily consist of corporate bonds that are vendor priced with no ratings available, bank loans, non-agency collateralized mortgage obligations and asset-backed securities.

Transfers into and out of all levels of the fair value hierarchy are reflected at end-of-period fair values. Realized and unrealized gains and losses on Level 3 financial instruments are recorded in investment gains and losses in the condensed consolidated statements of income.

#### ***Derivative Instruments***

As of September 30, 2018 and December 31, 2017, the VIEs held \$0.9 million and \$8.4 million (net), respectively, of futures, forwards and swaps within their portfolios. For the three and nine months ended September 30, 2018, we recognized \$0.5 million of losses and \$0.4 million of gains, respectively, on these derivatives. For the three and nine months ended September 30, 2017, we recognized \$3.8 million and \$18.8 million of gains, respectively, on these derivative positions. These gains and losses are recognized in investment gains (losses) in the condensed consolidated statements of income. As of September 30, 2018 and December 31, 2017, the VIEs held \$0.7 million and \$0.2 million, respectively, of cash collateral payable to trade counterparties. This obligation to return cash is reported in the liabilities of consolidated company-sponsored investment funds in our condensed consolidated statements of financial condition. As of September 30, 2018 and December 31, 2017, the VIEs delivered \$1.9 million and \$2.9 million, respectively, of cash collateral into brokerage accounts. The VIEs report this cash collateral in the consolidated company-sponsored investment funds cash and cash equivalents in our condensed consolidated statements of financial condition.

As of September 30, 2018 and December 31, 2017, the VOE held \$0.6 million and \$0.3 million, respectively, (net) of futures, forwards, options and swaps within their portfolios. For the three and nine months ended September 30, 2018, we recognized \$0.2 million and \$1.5 million of gains, respectively, on these derivatives. For both the three and nine months ended September 30, 2017, we recognized losses of \$0.2 million on these derivatives. These gains and losses are recognized in investment gains (losses) in the condensed consolidated statements of income. As of September 30, 2018, the VOEs held \$0.1 million of cash collateral payable to trade counterparties. This obligation to return cash is reported in the liabilities of consolidated company-sponsored investment funds in our condensed consolidated statements of financial condition. As of September 30, 2018 and December 31, 2017, the VOEs held \$0.4 million and \$0.2 million of cash collateral in brokerage accounts. The VOEs report this cash collateral in the consolidated company-sponsored investment funds cash and cash equivalents in our condensed consolidated statements of financial condition.

**Offsetting Assets and Liabilities**

Offsetting of derivative assets of consolidated company-sponsored investment funds as of September 30, 2018 and December 31, 2017 was as follows:

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Assets Presented in the Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
(in thousands)						
<b>September 30, 2018:</b>						
Derivatives - VIEs	\$ 2,627	\$ —	\$ 2,627	\$ —	\$ (691)	\$ 1,936
Derivatives - VOEs	\$ 1,105	\$ —	\$ 1,105	\$ —	\$ (115)	\$ 990
<b>December 31, 2017:</b>						
Derivatives - VIEs	\$ 30,636	\$ —	\$ 30,636	\$ —	\$ (194)	\$ 30,442
Derivatives - VOEs	\$ 300	\$ —	\$ 300	\$ —	\$ (37)	\$ 263

Offsetting of derivative liabilities of consolidated company-sponsored investment funds as of September 30, 2018 and December 31, 2017 was as follows:

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Liabilities Presented in the Statement of Financial Condition	Financial Instruments	Cash Collateral Pledged	Net Amount
(in thousands)						
<b>September 30, 2018:</b>						
Derivatives - VIEs	\$ 3,513	\$ —	\$ 3,513	\$ —	\$ (1,948)	\$ 1,565
Derivatives - VOEs	\$ 515	\$ —	\$ 515	\$ —	\$ (405)	\$ 110
<b>December 31, 2017:</b>						
Derivatives - VIEs	\$ 22,241	\$ —	\$ 22,241	\$ —	\$ (2,884)	\$ 19,357
Derivatives - VOEs	\$ 631	\$ —	\$ 631	\$ —	\$ (228)	\$ 403

Cash collateral, whether pledged or received on derivative instruments, is not considered material and, accordingly, is not disclosed by counterparty.

**Non-Consolidated VIEs**

As of September 30, 2018, the net assets of company-sponsored investment products that are non-consolidated VIEs are approximately \$58.2 billion, and our maximum risk of loss is our investment of \$6.4 million in these VIEs and our advisory fee receivables from these VIEs, which are not material.

**15. Units Outstanding**

Changes in AB Units outstanding during the nine-month period ended September 30, 2018 were as follows:

Outstanding as of December 31, 2017	268,659,333
Options exercised	629,493
Units issued	2,712,263
Units retired <sup>(1)</sup>	(3,435,327)
<b>Balance as of September 30, 2018</b>	<b>268,565,762</b>

<sup>(1)</sup> Includes 4,546 AB Units purchased in private transactions and retired during the first nine months of 2018.

**16. Debt**

As of September 30, 2018 and December 31, 2017, AB had \$399.9 million and \$491.8 million, respectively, in commercial paper outstanding with weighted average interest rates of approximately 2.2% and 1.6%, respectively. Debt included in the statement of financial condition is presented net of issuance costs of \$1.7 million and \$1.1 million as of September 30, 2018 and December 31, 2017, respectively. The commercial paper is short term in nature, and as such, recorded value is estimated to approximate fair value (and considered a Level 2 security in the fair value hierarchy). Average daily borrowings of commercial paper during the first nine months of 2018 and the full year 2017 were \$372.2 million and \$482.2 million, respectively, with weighted average interest rates of approximately 1.9% and 1.2%, respectively.

On September 27, 2018, AB amended and restated the existing \$1.0 billion committed, unsecured senior revolving credit facility (the "Credit Facility") with a group of commercial banks and other lenders, reducing the principal amount to \$800.0 million and extending the maturity to September 27, 2023. The Credit Facility provides for possible increases in the principal amount by up to an aggregate incremental amount of \$200.0 million; any such increase is subject to the consent of the affected lenders. The Credit Facility is available for AB and Sanford C. Bernstein & Co., LLC ("SCB LLC") business purposes, including the support of AB's commercial paper program. Both AB and SCB LLC can draw directly under the Credit Facility and management may draw on the Credit Facility from time to time. AB has agreed to guarantee the obligations of SCB LLC under the Credit Facility.

AB has a \$200.0 million, unsecured 364-day senior revolving credit facility (the "Revolver") with a leading international bank and the other lending institutions that may be party thereto, which matures on November 28, 2018. The Revolver is available for AB's and SCB LLC's business purposes, including the provision of additional liquidity to meet funding requirements primarily related to SCB LLC's operations. Both AB and SCB LLC can draw directly under the Revolver and management expects to draw on the Revolver from time to time. AB has agreed to guarantee the obligations of SCB LLC under the Revolver. The Revolver contains affirmative, negative and financial covenants that are identical to those of AB's \$800.0 million committed, unsecured senior revolving credit facility. As of September 30, 2018, we had no amounts outstanding under the Revolver. As of December 31, 2017, we had \$75.0 million outstanding under the Revolver with an interest rate of 2.4%. Average daily borrowing under the Revolver during the first nine months of 2018 and full year 2017 were \$16.7 million and \$21.4 million, respectively, with weighted average interest rates of approximately 2.7% and 2.0%, respectively.

**17. Changes in Capital**

Changes in capital during the nine-month period ended September 30, 2018 were as follows:

	<b>Partners' Capital Attributable to AB Unitholders</b>	<b>Non-Redeemable Non-Controlling Interests In Consolidated Entities</b>	<b>Total Capital</b>
	(in thousands)		
Balance as of December 31, 2017	\$ 4,061,740	\$ 1,564	\$ 4,063,304
Comprehensive income:			
Net income	569,535	150	569,685
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	(14,760)	(29)	(14,789)
Changes in employee benefit related items	749	—	749
Other	374	—	374
<b>Comprehensive income</b>	<b>555,898</b>	<b>121</b>	<b>556,019</b>
Distributions to General Partner and unitholders	(652,991)	—	(652,991)
Compensation-related transactions	(58,857)	—	(58,857)
Capital contributions to affiliates	(1,344)	—	(1,344)
Impact of adoption of revenue recognition standard ASC 606 and ASU 2016-01	34,577	—	34,577
Other	1,044	—	1,044
<b>Balance as of September 30, 2018</b>	<b>\$ 3,940,067</b>	<b>\$ 1,685</b>	<b>\$ 3,941,752</b>



Changes in capital during the nine-month period ended September 30, 2017 were as follows:

	Partners' Capital Attributable to AB Unitholders	Non-redeemable Non-Controlling Interests In Consolidated Entities	Total Capital
	(in thousands)		
Balance as of December 31, 2016	\$ 4,032,017	\$ 36,172	\$ 4,068,189
Comprehensive income:			
Net income	415,994	9,680	425,674
Other comprehensive income, net of tax:			
Unrealized gains on investments	9	—	9
Foreign currency translation adjustments	23,114	977	24,091
Changes in employee benefit related items	755	—	755
<b>Comprehensive income</b>	<b>439,872</b>	<b>10,657</b>	<b>450,529</b>
Distributions to General Partner and unitholders	(489,049)	—	(489,049)
Compensation-related transactions	(89,567)	—	(89,567)
Capital contributions from affiliates	79	—	79
Purchase of non-controlling interest	172	(2,005)	(1,833)
Distributions to non-controlling interests of our consolidated venture capital fund	—	(43,217)	(43,217)
Other	1,257	—	1,257
<b>Balance as of September 30, 2017</b>	<b>\$ 3,894,781</b>	<b>\$ 1,607</b>	<b>\$ 3,896,388</b>

## 18. Non-controlling Interests

Non-controlling interest in net income for the three and nine months ended September 30, 2018 and 2017 consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Non-redeemable non-controlling interests:				
Consolidated company-sponsored investment funds	\$ (46)	\$ 21	\$ (99)	\$ 9,436
Other	78	50	249	245
Total non-redeemable non-controlling interests	32	71	150	9,681
Redeemable non-controlling interests:				
Consolidated company-sponsored investment funds	694	16,455	23,487	40,332
<b>Total non-controlling interest in net income</b>	<b>\$ 726</b>	<b>\$ 16,526</b>	<b>\$ 23,637</b>	<b>\$ 50,013</b>

Non-redeemable non-controlling interest as of September 30, 2018 and December 31, 2017 consisted of the following:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	(in thousands)	
Consolidated company-sponsored investment funds	\$ 658	\$ 757
CPH Capital Fondsmaeglerselskab A/S	1,027	807
<b>Total non-redeemable non-controlling interest</b>	<b>\$ 1,685</b>	<b>\$ 1,564</b>

Redeemable non-controlling interest as of September 30, 2018 and December 31, 2017 consisted of the following:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	(in thousands)	
Consolidated company-sponsored investment funds	\$ 101,109	\$ 596,223
CPH Capital Fondsmaeglerselskab A/S acquisition	2,888	5,364
<b>Total redeemable non-controlling interest</b>	<b>\$ 103,997</b>	<b>\$ 601,587</b>

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### **Executive Overview**

Our total assets under management ("AUM") as of September 30, 2018 were \$550.4 billion, up \$10.6 billion, or 2.0%, compared to June 30, 2018, and up \$15.5 billion, or 2.9%, compared to September 30, 2017. During the third quarter of 2018, AUM increased as a result of market appreciation of \$9.3 billion and net inflows of \$1.3 billion (Retail net inflows of \$1.2 billion and \$0.3 billion for Private Wealth Management, offset by net outflows of \$0.2 billion for Institutions). During the twelve months ended September 30, 2018, AUM increased as a result of market appreciation of \$20.2 billion, offset by net outflows of \$4.7 billion (Institutional net outflows of \$8.0 billion, offset by net inflows of \$3.0 billion for Private Wealth Management and \$0.3 billion for Retail).

Institutional AUM increased \$2.6 billion, or 1.0%, to \$257.0 billion during the third quarter of 2018, due to market appreciation of \$2.5 billion and transfers in of \$0.3 billion, offset by net outflows of \$0.2 billion. Gross sales decreased sequentially from \$3.9 billion during the second quarter of 2018 to \$3.7 billion during the third quarter of 2018. Redemptions and terminations decreased sequentially from \$9.9 billion to \$1.5 billion. The second quarter's redemptions included a \$7.0 billion low-fee Customized Retirement Strategies redemption.

Retail AUM increased \$6.0 billion, or 3.2%, to \$196.3 billion during the third quarter of 2018, due to market appreciation of \$4.8 billion and net inflows of \$1.2 billion. Gross sales increased sequentially from \$11.6 billion during the second quarter of 2018 to \$12.6 billion during the third quarter of 2018, while redemptions and terminations decreased sequentially from \$10.6 billion to \$9.5 billion.

Private Wealth Management AUM increased \$2.0 billion, or 2.1%, to \$97.1 billion during the third quarter of 2018, due to market appreciation of \$2.0 billion and net inflows of \$0.3 billion, offset by transfers out of \$0.3 billion. Gross sales decreased sequentially from \$3.5 billion during the second quarter of 2018 to \$3.0 billion during the third quarter of 2018, and redemptions and terminations decreased sequentially from \$2.8 billion to \$2.3 billion.

Bernstein Research Services revenue for the third quarter of 2018 was \$103.6 million, down \$4.8 million, or 4.4%, compared to the third quarter of 2017 due to lower revenues in both the U.S. and Asia, mainly due to a volume shift towards lower priced electronic trading. The revenue decrease in the U.S. and Asia was partially offset by higher revenues in Europe, which resulted from an increase in hard dollar payments for research, partially offset by a strengthening U.S. dollar. Global revenues continue to be negatively impacted by fee pressure due to unbundling of research payments. (See *MiFID II discussion below*).

Net revenues for the third quarter of 2018 increased \$38.0 million, or 4.7%, to \$850.2 million from \$812.2 million in the third quarter of 2017. The most significant contributors to the increase were higher performance-based fees of \$36.6 million and higher investment advisory base fees of \$30.4 million, offset by lower investments gains of \$18.2 million and lower Bernstein Research Services revenue of \$4.8 million. Operating expenses for the third quarter of 2018 decreased \$13.8 million, or 2.1%, to \$636.4 million from \$650.2 million in the third quarter of 2017. The decrease primarily was due to lower general and administrative expenses (including real estate charges) of \$40.0 million, offset by higher employee compensation and benefits of \$27.7 million. Our operating income increased \$51.8 million, or 32.0%, to \$213.8 million from \$162.0 million and our operating margin increased to 25.1% in the third quarter of 2018 from 17.9% in the third quarter of 2017.

### **Market Environment**

Ongoing trade tension between the U.S. and China, the slowing pace of global growth, rising Treasury yields and more aggressive central bank monetary policy preoccupied investors during the third quarter, which created broad dispersion of equity market returns. Global equities finished broadly higher, as did U.S. equities, driven by strong economic data and the positive earnings impact of tax reform. Meanwhile, European equity returns were muted and emerging markets remained in negative territory. Bond categories such as U.S. high yield and global corporates fared well during the third quarter, and emerging market debt improved from a very challenging first half of 2018. However, government bonds were lower. The U.S. Federal Reserve increased interest rates in September for the third time in 2018 and signaled another increase later this year. Quantitative easing in Europe is set to end in December, and with monetary policy tightening around the world, reduced liquidity could negatively affect less liquid assets like high yield bonds and emerging market securities. By contrast, China has been easing monetary policy as the country deals with slowing domestic growth and U.S. tariff headwinds. In this environment, rising volatility, more moderate returns, P/E contraction and greater dispersion are increasingly driving the importance of security selection. Investors' growing beta concerns are manifesting in a steep decline in industrywide U.S. passive mutual fund flows: total year-to-date flows through September were down 38%. Within active, the trends are diverging between equity and fixed income. Year-to-date U.S. active equity mutual fund outflows of \$112.8 billion were 14% lower than the prior year-to-date period. Conversely, active fixed income industry

inflows of \$96.6 billion declined 44% over the same period, due primarily to weakness in taxable bonds. Moving forward, investors are likely to be focused on the persistency of equity returns, quality of growth and balance sheet strength, all factors that offer active asset managers, such as AB, a real opportunity to differentiate themselves.

## **MiFID II**

The second installment of the Markets in Financial Instruments Directive II ("MiFID II"), which became effective January 3, 2018, makes significant modifications to the manner in which European broker-dealers can be compensated for research. These modifications are recognized in the industry as having the potential to significantly decrease the overall research spend by European buy-side firms. Consequently, our U.K.-based broker-dealer is considering new charging mechanisms for its research in order to minimize this impact as part of its broader MiFID II implementation program. It is important to note, however, that our new fee structures and other strategic decisions to address the new environment created by MiFID II may not be successful, which could result in a significant decline in our sell-side revenues.

Also, although MiFID II does permit buy-side firms to purchase research through the use of client-funded research payment accounts, most buy-side firms that operate in the Eurozone, including our U.K. buy-side subsidiaries, have decided to use their own funds to pay for research in the Eurozone. This change in practice will increase our expenses in the Eurozone and, if this practice becomes more pervasive globally, it may have a significant adverse effect on our net income in future periods.

The ultimate impact of MiFID II on payments for research globally currently is uncertain.

## **AXA Equitable Holdings IPO**

During 2017, AXA S.A. ("AXA") announced its intention to pursue the sale of a minority stake in AXA Equitable Holdings, Inc. ("EQH"), the holding company for a diversified financial services organization, through an initial public offering ("IPO"). During the second quarter of 2018, EQH completed the IPO and, as a result, AXA owns approximately 72% of the outstanding common stock of EQH as of September 30, 2018. EQH and its subsidiaries have an approximate 65.1% economic interest in AB as of September 30, 2018. AXA has announced its intention to sell its entire interest in EQH over time, subject to market conditions and other factors. AXA is under no obligation to do so and retains the sole discretion to determine the timing of any future sales of shares of EQH common stock.

While we cannot at this time predict the eventual impact, if any, on AB of this transaction, it could include a reduction in the support AXA has provided to AB in the past with respect to AB's investment management business, resulting in a decrease in our revenues and ability to initiate new investment services. Also, AB relies on AXA for a number of significant services and benefits from its affiliation with AXA in certain common vendor relationships. Some of these arrangements are expected to change with possible negative financial implications for AB.

By letter dated March 31, 2018, AXA advised us of their current intention to continue using AB for the foreseeable future as a preferred provider of asset management services and to continue making commercial and seed investments that suit AXA from an investment perspective, in each case (i) consistent with past practice, (ii) subject to investment performance / returns and (iii) subject to applicable fiduciary duties.

## **Relocation Strategy**

On May 2, 2018, we announced that we will establish our corporate headquarters in, and relocate approximately 1,050 jobs currently located in the New York metro area to, Nashville, TN. Our Nashville headquarters will house Finance, IT, Operations, Legal, Compliance, Internal Audit, Human Capital, and Sales and Marketing. We have begun relocating jobs and expect this transition to take several years. We will continue to maintain a principal location in New York City, which will house our Portfolio Management, Sell-Side Research and Trading, and New York-based Private Wealth Management businesses.

We believe relocating our corporate headquarters to Nashville will afford us the opportunity to provide an improved quality of life alternative for our employees and enable us to attract and recruit new talented employees to a highly desirable location while improving the long-term cost structure of the firm.

During the transition period, which has begun in 2018 and is expected to continue through 2024, we currently estimate that we will incur transition costs of approximately \$125 million to \$135 million. These costs include employee relocation, severance, recruitment, and overlapping compensation and occupancy costs. Over this same period, we expect to realize total expense savings of approximately \$150 million to \$160 million, an amount greater than the total transition costs. However, we will incur some transition costs before we begin to realize expense savings. We currently anticipate that the largest reduction in EPU during the transition period will be approximately \$0.04 in 2018. We expect to achieve break-even or possibly a slight increase in EPU in 2021 and then achieve EPU accretion in each year thereafter. Beginning in 2025, once the transition period has been completed,

We estimate ongoing annual expense savings of approximately \$70 million, which will result from a combination of occupancy and compensation-related savings. Our estimates for both the transition costs and the corresponding expense savings are based upon our current assumptions of employee relocation costs, severance and overlapping compensation and occupancy costs. In addition, our estimates for both the timing of when we incur transition costs and realize the related expense savings is based on our current relocation implementation plan and the timing for execution of each phase. The actual total charges we eventually record, the related expense savings we realize and timing of EPU impact are expected to differ from our current estimates as we implement each phase of our headquarters relocation.

During October 2018, we signed a lease, which commences in mid-2020, relating to 205,000 square feet of space at our new Nashville headquarters. Our estimated total base rent obligation (excluding taxes, operating expenses and utilities) over the 15 year initial lease term is approximately \$125 million.

Although we have presented our transition costs and annual expense savings with numerical specificity, and we believe these targets to be reasonable as of the date of this report, the uncertainties surrounding the assumptions we discuss above create a significant risk that these targets may not be achieved. Accordingly, the expenses we actually incur and the savings we actually realize may differ from our targets, particularly if actual events adversely differ from one or more of our key assumptions. The transition costs and expense savings, together with their underlying assumptions, are Forward-Looking Statements and can be affected by any of the factors discussed in “Risk Factors” in our 2017 10-K and “Cautions Regarding Forward-Looking Statements” in this 10-Q. We strongly caution investors not to place undue reliance on any of these assumptions or our cost and expenses targets. Except as may be required by applicable securities laws, we are not under any obligation, and we expressly disclaim any obligation, to update or alter any assumptions, estimates, financial goals, targets, projections or other related statements that we may make.

### ***Adjusted Operating Margin Target***

We have adopted a goal of increasing our adjusted operating margin from 27.7% (which we achieved for 2017) to a target of 30% by 2020 (the “2020 Margin Target”), subject to the assumptions, factors and contingencies discussed below.

Actual results related to this target may vary depending on various factors, including capital market outcomes, the global regulatory environment in which we operate, the performance of our investment services, the net flows experienced by our investment services and the successful management of our costs. Also, the relocation of our corporate headquarters outside of the New York City metropolitan area, which is described *immediately above*, will likely involve substantial transitional costs, including employee relocation, severance, recruitment and duplicative compensation and occupancy costs. If the transitional costs we incur in 2018 through 2020 significantly exceed any cost savings we realize in those years from our relocation strategy, our actual adjusted operating margin for 2020 will be adversely affected and, as a result, we may not reach the 2020 Margin Target.

In setting our 2020 Margin Target, we have made significant assumptions with respect to, among other things:

- the levels of positive net flows into our investment services;
- the level of growth (in terms of additional AUM) in our alternative products business;
- the rate of increase in our fixed costs due to inflation and similar factors, the transitional costs related to our relocation strategy and the timing of such costs, the success we have in achieving planned new cost reductions (including those relating to our relocation strategy) and the timing of such cost reductions, and the investments we make in our business; and
- general conditions of the markets in which our business operates, including modest appreciation in both equity and fixed income total investment returns.

While our 2020 Margin Target is presented with numerical specificity, and we believe the target to be reasonable as of the date of this report, the uncertainties surrounding the assumptions we discuss above create a significant risk that these assumptions may not be realized. Accordingly, our 2020 Margin Target may not be achieved, particularly if actual events adversely differ from one or more of our key assumptions. The 2020 Margin Target and its underlying assumptions are Forward-Looking Statements and can be affected by any of the factors discussed in “Risk Factors” in our 2017 10-K and “Cautions Regarding Forward-Looking Statements” in this 10-Q. We strongly caution investors not to place undue reliance on any of these assumptions or our 2020 Margin Target. Except as may be required by applicable securities laws, we are not under any obligation, and we expressly disclaim any obligation, to update or alter any assumptions, estimates, financial goals, targets, projections or other related statements that we may make.

## Assets Under Management

Assets under management by distribution channel are as follows:

	As of September 30,		\$ Change	% Change
	2018	2017		
	(in billions)			
Institutions	\$ 257.0	\$ 260.0	\$ (3.0)	(1.2)%
Retail	196.3	185.7	10.6	5.7
Private Wealth Management	97.1	89.2	7.9	8.8
<b>Total</b>	<b>\$ 550.4</b>	<b>\$ 534.9</b>	<b>\$ 15.5</b>	<b>2.9</b>

Assets under management by investment service are as follows:

	As of September 30,		\$ Change	% Change
	2018	2017		
	(in billions)			
<b>Equity</b>				
Actively Managed	\$ 155.9	\$ 131.7	\$ 24.2	18.4%
Passively Managed <sup>(1)</sup>	56.0	52.3	3.7	7.0
<b>Total Equity</b>	<b>211.9</b>	<b>184.0</b>	<b>27.9</b>	<b>15.1</b>
<b>Fixed Income</b>				
Actively Managed				
Taxable	224.8	243.0	(18.2)	(7.5)
Tax-exempt	42.0	39.4	2.6	6.4
	266.8	282.4	(15.6)	(5.5)
Passively Managed <sup>(1)</sup>	9.9	9.9	—	—
<b>Total Fixed Income</b>	<b>276.7</b>	<b>292.3</b>	<b>(15.6)</b>	<b>(5.3)</b>
<b>Other<sup>(2)</sup></b>				
Actively Managed	61.0	58.0	3.0	5.0
Passively Managed <sup>(1)</sup>	0.8	0.6	0.2	52.6
<b>Total Other</b>	<b>61.8</b>	<b>58.6</b>	<b>3.2</b>	<b>5.5</b>
<b>Total</b>	<b>\$ 550.4</b>	<b>\$ 534.9</b>	<b>\$ 15.5</b>	<b>2.9</b>

(1) Includes index and enhanced index services.

(2) Includes certain multi-asset solutions and services and certain alternative investments.

Changes in assets under management for the three-month, nine-month and twelve-month periods ended September 30, 2018 are as follows:

	Distribution Channel			
	Institutions	Retail	Private Wealth Management	Total
	(in billions)			
Balance as of June 30, 2018	\$ 254.4	\$ 190.3	\$ 95.1	\$ 539.8
Long-term flows:				
Sales/new accounts	3.7	12.6	3.0	19.3
Redemptions/terminations	(1.5)	(9.5)	(2.3)	(13.3)
Cash flow/unreinvested dividends	(2.4)	(1.9)	(0.4)	(4.7)
Net long-term (outflows) inflows	(0.2)	1.2	0.3	1.3
Transfers	0.3	—	(0.3)	—
Market appreciation	2.5	4.8	2.0	9.3
Net change	2.6	6.0	2.0	10.6
<b>Balance as of September 30, 2018</b>	<b>\$ 257.0</b>	<b>\$ 196.3</b>	<b>\$ 97.1</b>	<b>\$ 550.4</b>
Balance as of December 31, 2017	\$ 269.3	\$ 192.9	\$ 92.3	\$ 554.5
Long-term flows:				
Sales/new accounts	22.5	39.1	11.0	72.6
Redemptions/terminations	(26.0)	(34.2)	(7.7)	(67.9)
Cash flow/unreinvested dividends	(7.5)	(5.6)	(0.4)	(13.5)
Net long-term (outflows) inflows	(11.0)	(0.7)	2.9	(8.8)
Transfers	0.3	—	(0.3)	—
Market (depreciation) appreciation	(1.6)	4.1	2.2	4.7
Net change	(12.3)	3.4	4.8	(4.1)
<b>Balance as of September 30, 2018</b>	<b>\$ 257.0</b>	<b>\$ 196.3</b>	<b>\$ 97.1</b>	<b>\$ 550.4</b>
Balance as of September 30, 2017	\$ 260.0	\$ 185.7	\$ 89.2	\$ 534.9
Long-term flows:				
Sales/new accounts	26.0	52.0	13.8	91.8
Redemptions/terminations	(27.0)	(44.4)	(10.4)	(81.8)
Cash flow/unreinvested dividends	(7.0)	(7.3)	(0.4)	(14.7)
Net long-term (outflows) inflows	(8.0)	0.3	3.0	(4.7)
Transfers	0.3	—	(0.3)	—
Market appreciation	4.7	10.3	5.2	20.2
Net change	(3.0)	10.6	7.9	15.5
<b>Balance as of September 30, 2018</b>	<b>\$ 257.0</b>	<b>\$ 196.3</b>	<b>\$ 97.1</b>	<b>\$ 550.4</b>

**Investment Service**

	<b>Equity Actively Managed</b>	<b>Equity Passively Managed<sup>(1)</sup></b>	<b>Fixed Income Actively Managed - Taxable</b>	<b>Fixed Income Actively Managed - Tax- Exempt</b>	<b>Fixed Income Passively Managed<sup>(1)</sup></b>	<b>Other<sup>(2)</sup></b>	<b>Total</b>
	(in billions)						
Balance as of June 30, 2018 \$	147.2	\$ 53.8	\$ 225.9	\$ 41.6	\$ 10.1	\$ 61.2	\$ 539.8
Long-term flows:							
Sales/new accounts	8.7	(0.1)	7.3	2.0	—	1.4	19.3
Redemptions/terminations	(4.7)	—	(6.3)	(1.4)	(0.1)	(0.8)	(13.3)
Cash flow/unreinvested dividends	(1.1)	(1.1)	(1.5)	(0.2)	—	(0.8)	(4.7)
Net long-term inflows (outflows)	2.9	(1.2)	(0.5)	0.4	(0.1)	(0.2)	1.3
Market appreciation (depreciation)	5.8	3.4	(0.6)	—	(0.1)	0.8	9.3
Net change	8.7	2.2	(1.1)	0.4	(0.2)	0.6	10.6
<b>Balance as of September 30, 2018</b>	<b>\$ 155.9</b>	<b>\$ 56.0</b>	<b>\$ 224.8</b>	<b>\$ 42.0</b>	<b>\$ 9.9</b>	<b>\$ 61.8</b>	<b>\$ 550.4</b>
Balance as of December 31, 2017	\$ 139.4	\$ 54.3	\$ 247.9	\$ 40.4	\$ 9.9	\$ 62.6	\$ 554.5
Long-term flows:							
Sales/new accounts	28.2	1.0	21.0	6.2	0.1	16.1	72.6
Redemptions/terminations	(16.4)	(0.5)	(30.4)	(4.4)	(0.3)	(15.9)	(67.9)
Cash flow/unreinvested dividends	(2.6)	(3.0)	(6.7)	(0.2)	0.4	(1.4)	(13.5)
Net long-term inflows (outflows)	9.2	(2.5)	(16.1)	1.6	0.2	(1.2)	(8.8)
Market appreciation (depreciation)	7.3	4.2	(7.0)	—	(0.2)	0.4	4.7
Net change	16.5	1.7	(23.1)	1.6	—	(0.8)	(4.1)
<b>Balance as of September 30, 2018</b>	<b>\$ 155.9</b>	<b>\$ 56.0</b>	<b>\$ 224.8</b>	<b>\$ 42.0</b>	<b>\$ 9.9</b>	<b>\$ 61.8</b>	<b>\$ 550.4</b>



Investment Service									
	Equity Actively Managed	Equity Passively Managed <sup>(1)</sup>	Fixed Income Actively Managed - Taxable	Fixed Income Actively Managed - Tax-Exempt	Fixed Income Passively Managed <sup>(1)</sup>	Other <sup>(2)</sup>	Total		
(in billions)									
Balance as of September 30, 2017	\$ 131.7	\$ 52.3	\$ 243.0	\$ 39.4	\$ 9.9	\$ 58.6	\$ 534.9		
Long-term flows:									
Sales/new accounts	34.2	1.0	30.0	8.4	0.1	18.1	91.8		
Redemptions/terminations	(21.6)	(0.5)	(37.4)	(5.6)	(0.4)	(16.3)	(81.8)		
Cash flow/unreinvested dividends	(3.4)	(4.4)	(5.7)	(0.2)	0.4	(1.4)	(14.7)		
Net long-term inflows (outflows)	9.2	(3.9)	(13.1)	2.6	0.1	0.4	(4.7)		
Market appreciation (depreciation)	15.0	7.6	(5.1)	—	(0.1)	2.8	20.2		
Net change	24.2	3.7	(18.2)	2.6	—	3.2	15.5		
<b>Balance as of September 30, 2018</b>	<b>\$ 155.9</b>	<b>\$ 56.0</b>	<b>\$ 224.8</b>	<b>\$ 42.0</b>	<b>\$ 9.9</b>	<b>\$ 61.8</b>	<b>\$ 550.4</b>		

(1) Includes index and enhanced index services.

(2) Includes certain multi-asset solutions and services and certain alternative investments.

Net long-term inflows (outflows) for actively managed investment services as compared to passively managed investment services for the three-month, nine-month and twelve-month periods ended September 30, 2018 are as follows:

	Periods Ended September 30, 2018		
	Three-months	Nine-months	Twelve-months
(in billions)			
<b>Actively Managed</b>			
Equity	\$ 2.9	\$ 9.2	\$ 9.2
Fixed Income	(0.1)	(14.5)	(10.5)
Other	(0.3)	(1.4)	0.2
	<b>2.5</b>	<b>(6.7)</b>	<b>(1.1)</b>
<b>Passively Managed</b>			
Equity	(1.2)	(2.5)	(3.9)
Fixed Income	(0.1)	0.2	0.1
Other	0.1	0.2	0.2
	<b>(1.2)</b>	<b>(2.1)</b>	<b>(3.6)</b>
<b>Total net long-term (outflows)</b>	<b>\$ 1.3</b>	<b>\$ (8.8)</b>	<b>\$ (4.7)</b>

Average assets under management by distribution channel and investment service are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
	(in billions)				(in billions)			
<b>Distribution Channel:</b>								
Institutions	\$ 256.6	\$ 257.1	\$ (0.5)	(0.2)%	\$ 261.1	\$ 250.1	\$ 11.0	4.4 %
Retail	194.0	181.7	12.3	6.7	193.4	173.4	20.0	11.6
Private Wealth Management	96.3	87.8	8.5	9.7	95.0	85.3	9.7	11.4
<b>Total</b>	<b>\$ 546.9</b>	<b>\$ 526.6</b>	<b>\$ 20.3</b>	<b>3.8</b>	<b>\$ 549.5</b>	<b>\$ 508.8</b>	<b>\$ 40.7</b>	<b>8.0</b>
<b>Investment Service:</b>								
Equity Actively Managed	\$ 152.4	\$ 128.0	\$ 24.4	19.0 %	\$ 147.3	\$ 121.9	\$ 25.4	20.8 %
Equity Passively Managed <sup>(1)</sup>	55.3	51.1	4.2	8.4	54.3	49.9	4.4	9.0
Fixed Income Actively Managed – Taxable	225.5	240.7	(15.2)	(6.3)	233.4	233.4	—	—
Fixed Income Actively Managed – Tax-exempt	41.9	39.6	2.3	5.7	41.2	38.5	2.7	7.1
Fixed Income Passively Managed <sup>(1)</sup>	10.0	9.9	0.1	0.5	10.0	10.4	(0.4)	(4.1)
Other <sup>(2)</sup>	61.8	57.3	4.5	7.8	63.3	54.7	8.6	15.6
<b>Total</b>	<b>\$ 546.9</b>	<b>\$ 526.6</b>	<b>\$ 20.3</b>	<b>3.8</b>	<b>\$ 549.5</b>	<b>\$ 508.8</b>	<b>\$ 40.7</b>	<b>8.0</b>

(1) Includes index and enhanced index services.

(2) Includes certain multi-asset solutions and services and certain alternative investments.

Our Institutional channel third quarter average AUM of \$256.6 billion decreased \$0.5 billion, or 0.2%, compared to the third quarter of 2017. Our Institutional AUM decreased \$3.0 billion, or 1.2%, to \$257.0 billion over the last twelve months. The \$3.0 billion decrease in AUM primarily resulted from net outflows of \$8.0 billion, offset by market appreciation of \$4.7 billion.

Our Retail channel third quarter average AUM of \$194.0 billion increased \$12.3 billion, or 6.7%, compared to the third quarter of 2017, primarily due to our Retail AUM increasing \$10.6 billion, or 5.7%, to \$196.3 billion over the last twelve months. The \$10.6 billion increase in AUM resulted from market appreciation of \$10.3 billion and net inflows of \$0.3 billion.

Our Private Wealth Management channel third quarter average AUM of \$96.3 billion increased \$8.5 billion, or 9.7%, compared to the third quarter of 2017, primarily due to our Private Wealth Management AUM increasing \$7.9 billion, or 8.8%, to \$97.1 billion over the last twelve months. The \$7.9 billion increase in AUM primarily resulted from market appreciation of \$5.2 billion and net inflows of \$3.0 billion.

Absolute investment composite returns, gross of fees, and relative performance as of September 30, 2018 compared to benchmarks for certain representative Institutional equity and fixed income services are as follows:

	1-Year	3-Year	5-Year
<b>Global High Income - Hedged (fixed income)</b>			
Absolute return	1.0%	7.9%	5.7%
Relative return (vs. Bloomberg Barclays Global High Yield Index - Hedged)	(0.1)	—	(0.1)
<b>U.S. High Yield (fixed income)</b>			
Absolute return	3.4	7.8	5.6
Relative return (vs. Bloomberg Barclays U.S. Corp. High Yield Index)	0.4	(0.4)	0.1
<b>Global Plus - Hedged (fixed income)</b>			
Absolute return	0.4	3.1	3.8
Relative return (vs. Bloomberg Barclays Global Aggregate Index - Hedged)	(0.4)	0.8	0.6
<b>Intermediate Municipal Bonds (fixed income)</b>			
Absolute return	0.1	1.7	2.3
Relative return (vs. Lipper Short/Int. Blended Muni Fund Avg)	—	0.4	0.6
<b>U.S. Strategic Core Plus (fixed income)</b>			
Absolute return	(0.6)	2.5	3.2
Relative return (vs. Bloomberg Barclays U.S. Aggregate Index)	0.7	1.2	1.1
<b>Emerging Market Debt (fixed income)</b>			
Absolute return	(4.9)	6.9	4.6
Relative return (vs. JPM EMBI Global/JPM EMBI)	(2.0)	1.2	—
<b>Emerging Markets Value</b>			
Absolute return	(4.1)	10.8	3.3
Relative return (vs. MSCI EM Index)	(3.3)	(1.6)	(0.3)
<b>Global Strategic Value</b>			
Absolute return	2.3	10.6	8.4
Relative return (vs. MSCI ACWI Index)	(7.4)	(2.8)	(0.3)
<b>U.S. Small &amp; Mid Cap Value</b>			
Absolute return	11.2	15.3	11.5
Relative return (vs. Russell 2500 Value Index)	1.0	0.8	1.5
<b>U.S. Strategic Value</b>			
Absolute return	7.5	10.0	8.7
Relative return (vs. Russell 1000 Value Index)	(1.9)	(3.6)	(2.0)
<b>U.S. Small Cap Growth</b>			
Absolute return	38.8	25.8	15.4
Relative return (vs. Russell 2000 Growth Index)	17.7	7.8	3.2
<b>U.S. Large Cap Growth</b>			
Absolute return	24.9	20.1	18.3
Relative return (vs. Russell 1000 Growth Index)	(1.4)	(0.4)	1.7
<b>U.S. Small &amp; Mid Cap Growth</b>			
Absolute return	35.6	22.2	14.2
Relative return (vs. Russell 2500 Growth Index)	12.5	4.3	1.3
<b>Concentrated U.S. Growth</b>			
Absolute return	21.5	17.3	15.2
Relative return (vs. S&P 500 Index)	3.6	—	1.3
<b>Select U.S. Equity</b>			
Absolute return	19.8	17.1	14.1
Relative return (vs. S&P 500 Index)	1.9	(0.3)	0.2
<b>Strategic Equities</b>			
Absolute return	17.4	15.4	13.3
Relative return (vs. Russell 3000 Index)	(0.2)	(1.7)	(0.1)
<b>Global Core Equity</b>			
Absolute return	13.3	15.4	9.7
Relative return (vs. MSCI ACWI Index)	3.6	2.0	1.0

**Consolidated Results of Operations**

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
	(in thousands, except per unit amounts)							
Net revenues	\$ 850,176	\$ 812,150	\$ 38,026	4.7 %	\$ 2,562,701	\$ 2,379,380	\$ 183,321	7.7 %
Expenses	636,357	650,123	(13,766)	(2.1)	1,936,747	1,888,504	48,243	2.6
Operating income	213,819	162,027	51,792	32.0	625,954	490,876	135,078	27.5
Income taxes	9,419	4,547	4,872	107.1	32,782	24,869	7,913	31.8
Net income	204,400	157,480	46,920	29.8	593,172	466,007	127,165	27.3
Net income of consolidated entities attributable to non-controlling interests	726	16,526	(15,800)	(95.6)	23,637	50,013	(26,376)	(52.7)
Net income attributable to AB Unitholders	\$ 203,674	\$ 140,954	\$ 62,720	44.5	\$ 569,535	\$ 415,994	\$ 153,541	36.9
Diluted net income per AB Unit	\$ 0.75	\$ 0.52	\$ 0.23	44.2	\$ 2.09	\$ 1.54	\$ 0.55	35.7
Distributions per AB Unit	\$ 0.76	\$ 0.58	\$ 0.18	31.0	\$ 2.25	\$ 1.66	\$ 0.59	35.5
Operating margin <sup>(1)</sup>	25.1%	17.9%			23.5%	18.5%		

(1) Operating income excluding net income (loss) attributable to non-controlling interests as a percentage of net revenues.

Net income attributable to AB Unitholders for the three months ended September 30, 2018 increased \$62.7 million, or 44.5%, from the three months ended September 30, 2017. The increase primarily is due to (in millions):

Lower general and administrative expenses (including real estate charges)	\$ 40.0
Higher performance-based fees	36.6
Higher base advisory fees	30.4
Lower net income of consolidated entities attributable to non-controlling interests	15.8
Higher employee compensation and benefits	(27.7)
Lower investment gains	(18.2)
Lower Bernstein Research Services revenue	(4.8)
Higher income tax expense	(4.9)
Lower dividend and interest income, net of interest expense	(3.4)
Other	(1.1)
	<u>\$ 62.7</u>

Net income attributable to AB Unitholders for the nine months ended September 30, 2018 increased \$153.5 million, or 36.9%, from the nine months ended September 30, 2017. The increase primarily is due to (in millions):

Higher base advisory fees	\$ 152.4
Higher performance-based fees	57.4
Lower general and administrative expenses (including real estate charges)	55.7
Lower net income of consolidated entities attributable to non-controlling interests	26.4
Higher other revenues	5.0
Higher employee compensation and benefits	(80.1)
Lower investment gains	(41.3)
Higher trade execution, marketing, T&E and other expenses	(8.1)
Higher income tax expense	(7.9)
Lower Bernstein Research Services revenues	(6.4)
Other	0.4
	<u>\$ 153.5</u>

### **Revenue Recognition**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*, which outlines a single comprehensive revenue recognition model for all contracts with customers and supersedes most of the existing revenue recognition requirements. We adopted this new standard on January 1, 2018 on a modified retrospective basis for contracts that were not completed as of the date of adoption. This adoption method required an adjustment to the 2018 opening balance of partners’ capital for the cumulative effect of initially applying the new standard.

The new standard did not change the timing of revenue recognition for our base fees, distribution revenues, shareholder servicing fees and broker-dealer revenues. However, performance-based fees, which, prior to the adoption of ASC 606, were recognized at the end of the applicable measurement period when no risk of reversal remained, and carried-interest distributions received (considered performance-based fees), recorded as deferred revenues until no risk of reversal remained, are recognized earlier under the new standard, if it is probable that significant reversal of performance-based fees recognized will not occur.

On January 1, 2018, we recorded a cumulative effect adjustment, net of tax, of \$35.0 million to partners’ capital in the condensed consolidated statement of financial condition. This amount represents carried interest distributions of \$77.9 million previously received, net of revenue sharing payments to investment team members of \$42.7 million, with respect to which it is probable that significant reversal will not occur. These amounts were included in adjusted net revenues and adjusted operating income in the first quarter of 2018. As such, we recognized \$49.3 million of performance-based fees from two funds in liquidation that is not probable of significant reversal, that under the previous revenue accounting standard would not be recognized until final liquidation.

### **Real Estate Charges**

Since 2010, we have sub-leased over one million square feet of office space.

During the first nine months of 2018, we recorded pre-tax real estate charges of \$6.5 million, resulting from changes in estimates pertaining to previously recorded real estate charges. During the first nine months of 2017, we recorded pre-tax real estate charges of \$39.4 million, resulting from new charges of \$40.2 million primarily relating to the further consolidation of office space at our New York offices, offset by changes in estimates related to previously recorded real estate charges of \$0.8 million.

### **Units Outstanding**

Each quarter, we consider whether to implement a plan to repurchase AB Holding Units pursuant to Rules 10b5-1 and 10b-18 under the Exchange Act. A plan of this type allows a company to repurchase its shares at times when it otherwise might be prevented from doing so because of self-imposed trading blackout periods or because it possesses material non-public information. Each broker we select has the authority under the terms and limitations specified in the plan to repurchase AB Holding Units on our

behalf in accordance with the terms of the plan. Repurchases are subject to regulations promulgated by the SEC as well as certain price, market volume and timing constraints specified in the plan. The plan adopted during the third quarter of 2018 expired at the close of business on October 22, 2018. We may adopt additional plans in the future to engage in open-market purchases of AB Holding Units to help fund anticipated obligations under our incentive compensation award program and for other corporate purposes.

### **Cash Distributions**

We are required to distribute all of our Available Cash Flow, as defined in the AB Partnership Agreement, to our Unitholders and the General Partner. Available Cash Flow typically is the adjusted diluted net income per unit for the quarter multiplied by the number of general and limited partnership interests at the end of the quarter. In future periods, management anticipates that Available Cash Flow will continue to be based on adjusted diluted net income per unit, unless management determines, with concurrence of the Board of Directors, that one or more adjustments that are made for adjusted net income should not be made with respect to the Available Cash Flow calculation. See *Note 7 to the condensed consolidated financial statements contained in Item 1* for a description of Available Cash Flow.

### **Management Operating Metrics**

We are providing the non-GAAP measures “adjusted net revenues”, “adjusted operating income” and “adjusted operating margin” because they are the principal operating metrics management uses in evaluating and comparing period-to-period operating performance. Management principally uses these metrics in evaluating performance because they present a clearer picture of our operating performance and allow management to see long-term trends without the distortion primarily caused by long-term incentive compensation-related mark-to-market adjustments, real estate consolidation charges and other adjustment items. Similarly, we believe that these management operating metrics help investors better understand the underlying trends in our results and, accordingly, provide a valuable perspective for investors.

These non-GAAP measures are provided in addition to, and not as substitutes for, net revenues, operating income and operating margin, and they may not be comparable to non-GAAP measures presented by other companies. Management uses both accounting principles generally accepted in the United States of America (“US GAAP”) and non-GAAP measures in evaluating our financial performance. The non-GAAP measures alone may pose limitations because they do not include all of our revenues and expenses.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands, except per unit amounts)			
<b>Net revenues, US GAAP basis</b>	<b>\$ 850,176</b>	<b>\$ 812,150</b>	<b>\$ 2,562,701</b>	<b>\$ 2,379,380</b>
Adjustments:				
Impact of adoption of revenue recognition standard ASC 606	—	—	77,844	—
Distribution-related payments	(106,372)	(106,106)	(322,827)	(300,951)
Amortization of deferred sales commissions	(4,651)	(7,629)	(17,362)	(25,015)
Pass-through fees and expenses	(10,084)	(9,759)	(31,180)	(29,868)
Impact of consolidated company-sponsored funds	(1,543)	(23,368)	(39,073)	(71,222)
Loss (gain) on sale of software technology investment	1,000	(361)	1,000	(4,593)
Long-term incentive compensation-related investment gains and dividend and interest	(1,383)	(2,185)	(1,965)	(7,398)
Other	—	—	47	—
<b>Adjusted net revenues<sup>(1)</sup></b>	<b>\$ 727,143</b>	<b>\$ 662,742</b>	<b>\$ 2,229,185</b>	<b>\$ 1,940,333</b>
<b>Operating income, US GAAP basis</b>	<b>\$ 213,819</b>	<b>\$ 162,027</b>	<b>\$ 625,954</b>	<b>\$ 490,876</b>
Adjustments:				
Impact of adoption of revenue recognition standard ASC 606	—	—	35,156	—
Real estate (credits) charges	(155)	18,655	6,490	39,400
Acquisition-related expenses	—	1,462	—	2,012
Loss (gain) on software technology investment	1,000	(361)	1,000	(4,593)
Long-term incentive compensation-related items	1,820	329	2,822	813
Other	—	(193)	47	(193)
Sub-total of non-GAAP adjustments	2,665	19,892	45,515	37,439
Less: Net income of consolidated entities attributable to non-controlling interests	726	16,526	23,637	50,013
<b>Adjusted operating income</b>	<b>215,758</b>	<b>165,393</b>	<b>647,832</b>	<b>478,302</b>
Adjusted income taxes	9,515	10,188	33,946	29,511
<b>Adjusted net income</b>	<b>206,243</b>	<b>155,205</b>	<b>613,886</b>	<b>448,791</b>
<b>Diluted net income per AB Unit, GAAP basis</b>	<b>\$ 0.75</b>	<b>\$ 0.52</b>	<b>\$ 2.09</b>	<b>\$ 1.54</b>
Impact of non-GAAP adjustments	0.01	0.06	0.16	0.12
<b>Adjusted diluted net income per AB Unit</b>	<b>\$ 0.76</b>	<b>\$ 0.58</b>	<b>\$ 2.25</b>	<b>\$ 1.66</b>
<b>Adjusted operating margin<sup>(1)</sup></b>	<b>29.7%</b>	<b>25.0%</b>	<b>29.1%</b>	<b>24.7%</b>

<sup>(1)</sup> Prior period adjusted net revenues and operating margin have been revised due to a GAAP reclassification of certain promotion and servicing expenses that impacted adjusted revenues previously presented.

Adjusted operating income for the three months ended September 30, 2018 increased \$50.4 million, or 30.5%, from the three months ended September 30, 2017, primarily due to higher performance-based fees of \$36.6 million, higher investment advisory base fees of \$30.3 million and lower general and administrative expenses of \$13.8 million, offset by higher employee compensation and benefits expense (excluding the impact of long-term incentive compensation-related items) of \$27.0 million and lower Bernstein Research Services revenue of \$4.8 million. Adjusted operating income for the nine months ended September 30, 2018 increased \$169.5 million, or 35.4%, from the nine months ended September 30, 2017, primarily due to higher investment advisory base fees of \$154.7 million, higher performance-based fees of \$135.2 million and lower general and administrative expenses of \$14.4 million, offset by higher employee compensation and benefits expense (excluding the impact of long-term incentive compensation-related

items) of \$126.8 million, lower Bernstein Research Services revenue of \$6.4 million and higher promotion and servicing expense of \$5.7 million.

On January 1, 2018, we recorded a cumulative effect adjustment, net of tax, of \$35.0 million to partners' capital in the condensed consolidated statement of financial condition. This amount represents carried interest distributions of \$77.9 million previously received, net of revenue sharing payments to investment team members, of \$42.7 million, with respect to which it is probable that significant reversal will not occur. These amounts were included in adjusted net revenues and adjusted operating income in the first quarter of 2018.

### Adjusted Net Revenues

Adjusted net revenues offset distribution-related payments to third parties as well as amortization of deferred sales commissions against distribution revenues. We believe offsetting net revenues by distribution-related payments is useful for our investors and other users of our financial statements because such presentation appropriately reflects the nature of these costs as pass-through payments to third parties who perform functions on behalf of our sponsored mutual funds and/or shareholders of these funds. We offset amortization of deferred sales commissions against net revenues because such costs, over time, essentially offset our distribution revenues. We also exclude additional pass-through expenses we incur (primarily through our transfer agency) that are reimbursed and recorded as fees in revenues. These fees do not affect operating income, but they do affect our operating margin. As such, we exclude these fees from adjusted net revenues.

We adjust for the revenue impact of consolidating company-sponsored investment funds by eliminating the consolidated company-sponsored investment funds' revenues and including AB's fees from such consolidated company-sponsored investment funds and AB's investment gains and losses on its investments in such consolidated company-sponsored investment funds that were eliminated in consolidation.

Adjusted net revenues exclude investment gains and losses and dividends and interest on employee long-term incentive compensation-related investments.

Adjusted net revenues include the impact of adoption of revenue recognition standard ASC 606, *discussed above*.

During 2017, we excluded a realized gain of \$4.6 million on the exchange of software technology for an ownership stake in a third party provider of financial market data and trading tools. During the third quarter of 2018, we wrote this investment down \$1.0 million.

### Adjusted Operating Income

Adjusted operating income represents operating income on a US GAAP basis excluding (1) real estate charges (credits), (2) acquisition-related expenses, (3) the impact on net revenues and compensation expense of the investment gains and losses (as well as the dividends and interest) associated with employee long-term incentive compensation-related investments, (4) the impact of consolidated company-sponsored investment funds, (5) loss (gain) on software technology investment, and (6) adjustments to contingent payment arrangements; provided, however, that adjusted operating income includes the revenues and expenses associated with the implementation of ASC 606 *discussed above*.

Real estate charges (credits) have been excluded because they are not considered part of our core operating results when comparing financial results from period to period and to industry peers.

Acquisition-related expenses have been excluded because they are not considered part of our core operating results when comparing financial results from period to period and to industry peers.

Prior to 2009, a significant portion of employee compensation was in the form of long-term incentive compensation awards that were notionally invested in AB investment services and generally vested over a period of four years. AB economically hedged the exposure to market movements by purchasing and holding these investments on its balance sheet. All such investments had vested as of year-end 2012 and the investments have been delivered to the participants, except for those investments with respect to which the participant elected a long-term deferral. Fluctuation in the value of these investments is recorded within investment gains and losses on the income statement and also impacts compensation expense. Management believes it is useful to reflect the offset achieved from economically hedging the market exposure of these investments in the calculation of adjusted operating income and adjusted operating margin. The non-GAAP measures exclude gains and losses and dividends and interest on employee long-term incentive compensation-related investments included in revenues and compensation expense.



We adjusted for the operating income impact of consolidating certain company-sponsored investment funds by eliminating the consolidated company-sponsored funds' revenues and expenses and including AB's revenues and expenses that were eliminated in consolidation. We also excluded the limited partner interests we do not own.

Gains and losses on the software technology investment has been excluded due to its non-recurring nature and because it is not part of our core operating results.

The recording of changes in estimates of contingent consideration payable with respect to contingent payment arrangements associated with our acquisitions are not considered part of our core operating results and, accordingly, have been excluded.

#### Adjusted Net Income and Adjusted Diluted Net Income per AB Unit

As previously discussed, our quarterly distribution is typically our adjusted diluted net income per unit (which is derived from adjusted net income) for the quarter multiplied by the number of general and limited partnership interests at the end of the quarter. Adjusted income taxes, used in calculating adjusted net income, are calculated using the GAAP effective tax rate adjusted for non-GAAP income tax adjustments.

#### Adjusted Operating Margin

Adjusted operating margin allows us to monitor our financial performance and efficiency from period to period without the volatility *noted above in our discussion of adjusted operating income* and to compare our performance to industry peers on a basis that better reflects our performance in our core business. Adjusted operating margin is derived by dividing adjusted operating income by adjusted net revenues.

## Net Revenues

The adoption of ASC 606 had no significant impact on revenue recognition during the first nine months of 2018, except for the recognition of \$49.3 million of performance fees from two funds in liquidation that is not probable of significant reversal, that under the previous revenue accounting standard would not be recognized until final liquidation. The components of net revenues are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
	(in thousands)				(in thousands)			
Investment advisory and services fees:								
Institutions:								
Base fees	\$ 110,501	\$ 108,849	\$ 1,652	1.5 %	\$ 338,372	\$ 318,347	\$ 20,025	6.3 %
Performance-based fees	9,973	1,140	8,833	774.8	14,737	7,818	6,919	88.5
	<u>120,474</u>	<u>109,989</u>	<u>10,485</u>	<u>9.5</u>	<u>353,109</u>	<u>326,165</u>	<u>26,944</u>	<u>8.3</u>
Retail:								
Base fees	252,884	240,006	12,878	5.4	750,860	673,286	77,574	11.5
Performance-based fees	1,371	229	1,142	498.7	16,406	13,652	2,754	20.2
	<u>254,255</u>	<u>240,235</u>	<u>14,020</u>	<u>5.8</u>	<u>767,266</u>	<u>686,938</u>	<u>80,328</u>	<u>11.7</u>
Private Wealth Management:								
Base fees	205,533	189,697	15,836	8.3	610,352	555,580	54,772	9.9
Performance-based fees	29,801	3,186	26,615	835.4	51,560	3,877	47,683	1,229.9
	<u>235,334</u>	<u>192,883</u>	<u>42,451</u>	<u>22.0</u>	<u>661,912</u>	<u>559,457</u>	<u>102,455</u>	<u>18.3</u>
Total:								
Base fees	568,918	538,552	30,366	5.6	1,699,584	1,547,213	152,371	9.8
Performance-based fees	41,145	4,555	36,590	803.3	82,703	25,347	57,356	226.3
	<u>610,063</u>	<u>543,107</u>	<u>66,956</u>	<u>12.3</u>	<u>1,782,287</u>	<u>1,572,560</u>	<u>209,727</u>	<u>13.3</u>
Bernstein Research Services	103,581	108,385	(4,804)	(4.4)	324,192	330,596	(6,404)	(1.9)
Distribution revenues	104,488	106,042	(1,554)	(1.5)	317,610	302,745	14,865	4.9
Dividend and interest income	21,942	17,619	4,323	24.5	71,351	51,023	20,328	39.8
Investment gains (losses)	565	18,808	(18,243)	(97.0)	26,860	68,122	(41,262)	(60.6)
Other revenues	24,012	24,902	(890)	(3.6)	76,548	71,532	5,016	7.0
Total revenues	864,651	818,863	45,788	5.6	2,598,848	2,396,578	202,270	8.4
Less: Interest expense	14,475	6,713	7,762	115.6	36,147	17,198	18,949	110.2
<b>Net revenues</b>	<b>\$ 850,176</b>	<b>\$ 812,150</b>	<b>\$ 38,026</b>	<b>4.7</b>	<b>\$ 2,562,701</b>	<b>\$ 2,379,380</b>	<b>\$ 183,321</b>	<b>7.7</b>

## Investment Advisory and Services Fees

Investment advisory and services fees are the largest component of our revenues. These fees generally are calculated as a percentage of the value of AUM as of a specified date, or as a percentage of the value of average AUM for the applicable billing period, and vary with the type of investment service, the size of the account and the total amount of assets we manage for a particular client. Accordingly, fee income generally increases or decreases as AUM increases or decreases and is affected by market appreciation or depreciation, the addition of new client accounts or client contributions of additional assets to existing accounts, withdrawals of assets from and termination of client accounts, purchases and redemptions of mutual fund shares, shifts of assets between accounts or products with different fee structures, and acquisitions. Our average basis points realized (investment advisory and services fees divided by average AUM) generally approximate 40 to 110 basis points for actively-managed equity services, 10 to 75 basis points for actively-managed fixed income services and 2 to 20 basis points for passively-managed services. Average basis points realized for other services could range from 5 basis points for certain Institutional asset allocation services to over 100 basis points for certain Retail and Private Wealth Management alternative services. These ranges include all-inclusive fee arrangements (covering investment management, trade execution and other services) for our Private Wealth Management clients.

We calculate AUM using established market-based valuation methods and fair valuation (non-observable market) methods. Market-based valuation methods include: last sale/settle prices from an exchange for actively-traded listed equities, options and futures; evaluated bid prices from recognized pricing vendors for fixed income, asset-backed or mortgage-backed issues; mid prices from recognized pricing vendors and brokers for credit default swaps; and quoted bids or spreads from pricing vendors and brokers for other derivative products. Fair valuation methods include: discounted cash flow models, evaluation of assets versus liabilities or any other methodology that is validated and approved by our Valuation Committee (*see paragraph immediately below* for more information regarding our Valuation Committee). Fair valuation methods are used only where AUM cannot be valued using market-based valuation methods, such as in the case of private equity or illiquid securities.

The Valuation Committee, which consists of senior officers and employees, is responsible for overseeing the pricing and valuation of all investments held in client and AB portfolios. The Valuation Committee has adopted a Statement of Pricing Policies describing principles and policies that apply to pricing and valuing investments held in these portfolios. We also have a Pricing Group, which reports to the Valuation Committee and is responsible for overseeing the pricing process for all investments.

We sometimes charge our clients performance-based fees. In these situations, we charge a base advisory fee and are eligible to earn an additional performance-based fee or incentive allocation that is calculated as either a percentage of absolute investment results or a percentage of investment results in excess of a stated benchmark over a specified period of time. Some performance-based fees include a high-watermark provision, which generally provides that if a client account underperforms relative to its performance target (whether absolute or relative to a specified benchmark), it must gain back such underperformance before we can collect future performance-based fees. Therefore, if we fail to achieve our performance target for a particular period, we will not earn a performance-based fee for that period and, for accounts with a high-watermark provision, our ability to earn future performance-based fees will be impaired. We are eligible to earn performance-based fees on 7.2%, 7.3% and 1.0% of the assets we manage for institutional clients, private wealth clients and retail clients, respectively (in total, 5.0% of our AUM).

For the three months ended September 30, 2018, our investment advisory and services fees increased by \$67.0 million, or 12.3%, from the three months ended September 30, 2017, primarily due to a \$30.4 million, or 5.6%, increase in base fees, which primarily resulted from a 3.8% increase in average AUM. Additionally, performance-based fees increased \$36.6 million. For the nine months ended September 30, 2018, our investment advisory and services fees increased by \$209.7 million, or 13.3%, from the nine months ended September 30, 2017, primarily due to a \$152.4 million, or 9.8%, increase in base fees, which primarily resulted from an 8.0% increase in average AUM. Additionally, performance-based fees increased \$57.4 million. Performance-based fees of \$34.5 million and \$49.3 million for the three and nine months ended September 30, 2018, respectively, related to two funds in liquidation.

Institutional investment advisory and services fees for the three months ended September 30, 2018 increased by \$10.5 million, or 9.5%, from the three months ended September 30, 2017, primarily due to an \$8.8 million increase in performance-based fees. Additionally, base fees increased \$1.7 million, or 1.5%. Institutional investment advisory and services fees for the nine months ended September 30, 2018 increased by \$26.9 million, or 8.3%, from the nine months ended September 30, 2017, primarily due to a \$20.0 million, or 6.3%, increase in base fees, which primarily resulted from a 4.4% increase in average AUM. Additionally, performance-based fees increased by \$6.9 million.

Retail investment advisory and services fees for the three months ended September 30, 2018 increased by \$14.0 million, or 5.8%, from the three months ended September 30, 2017, due to an increase in base fees of \$12.9 million, or 5.4%, primarily resulting from a 6.7% increase in average AUM. Retail investment advisory and services fees for the nine months ended September 30,

2018 increased by \$80.3 million, or 11.7%, from the nine months ended September 30, 2017, due to an increase in base fees of \$77.6 million, or 11.5%, primarily resulting from an 11.6% increase in average AUM.

Private Wealth Management investment advisory and services fees for the three months ended September 30, 2018 increased by \$42.5 million, or 22.0%, from the three months ended September 30, 2017, due to an increase in performance-based fees of \$26.6 million. Additionally, base fees increased \$15.8 million, or 8.3%, primarily resulting from a 9.7% increase in average AUM. Private Wealth Management investment advisory and services fees for the nine months ended September 30, 2018 increased by \$102.5 million, or 18.3%, from the nine months ended September 30, 2017, due to an increase in base fees of \$54.8 million, or 9.9%, primarily resulting from an 11.4% increase in average AUM. In addition, performance-based fees increased by \$47.7 million.

#### Bernstein Research Services

We earn revenues for providing investment research to, and executing brokerage transactions for, institutional clients. These clients compensate us principally by directing us to execute brokerage transactions on their behalf, for which we earn commissions, and to a lesser extent by paying us directly for research through commission sharing agreements or cash payments.

Revenues from Bernstein Research Services for the three months ended September 30, 2018 decreased \$4.8 million, or 4.4%, compared to the corresponding period in 2017, due to lower revenues in both the U.S. and Asia, mainly due to a volume shift towards lower priced electronic trading. The revenue decrease in the U.S. and Asia was partially offset by higher revenues in Europe, which resulted from an increase in hard dollar payments for research, partially offset by a strengthening U.S. dollar. Bernstein Research Services revenues for the nine months ended September 30, 2018 decreased \$6.4 million, or 1.9%, compared to the corresponding period in 2017, due to lower revenues in the U.S., mainly due to a volume shift towards lower priced electronic trading. The revenue decrease in the U.S. was offset by higher revenues in Asia, which resulted from higher volume and an increase in hard dollar payments for research. Further, partially offsetting the decrease in U.S. revenue were higher revenues in Europe, which resulted from an increase in hard dollar payments for research, partially offset by a strengthening U.S. dollar.

Global revenues continue to be negatively impacted by fee pressure due to unbundling of research payments.

#### Distribution Revenues

Two of our subsidiaries act as distributors and/or placing agents of company-sponsored mutual funds and receive distribution services fees from certain of those funds as partial reimbursement of the distribution expenses they incur. Period-over-period fluctuations of distribution revenues typically are in line with fluctuations of the corresponding average AUM of these mutual funds.

Distribution revenues for the three months ended September 30, 2018 decreased \$1.6 million, or 1.5%, as the corresponding average AUM of these mutual funds increased 2.0%, offset by the impact of a shift in product mix. Average AUM of B-share and C-share mutual funds (which have higher distribution rates than A-share mutual funds, as well as other funds not domiciled in the U.S. or Luxembourg) decreased 20.2%, while average AUM of Japan and Taiwan domiciled funds increased 33.0%. Distribution revenues for the nine months ended September 30, 2018 increased \$14.9 million, or 4.9%, primarily due to the increase in the corresponding average AUM of these mutual funds increasing 8.9%, offset by the impact of a shift in product mix. Average AUM of B-share and C-share mutual funds (which have higher distribution fee rates than A-share mutual funds, as well as other funds not domiciled in the U.S. or Luxembourg) decreased 21.4%, while average AUM for A-share mutual funds increased 8.0% and Japan and Taiwan domiciled funds increased 39.7%.

#### Dividend and Interest Income and Interest Expense

Dividend and interest income consists primarily of investment income and interest earned on customer margin balances and U.S. Treasury Bills as well as dividend and interest income in our consolidated company-sponsored investment funds. Interest expense principally reflects interest accrued on cash balances in customers' brokerage accounts. Dividend and interest income, net of interest expense, for the three months ended September 30, 2018 decreased \$3.4 million, or 31.5%, compared to the corresponding period in 2017, primarily due to lower dividend and interest income in our consolidated company-sponsored investment funds, due to a lower number of consolidated company-sponsored investment funds. For the nine months ended September 30, 2018 dividend and interest income, net of interest expense, increased \$1.4 million, or 4.1%, compared to the corresponding periods in 2017.

Investment Gains (Losses)

Investment gains (losses) consist primarily of realized and unrealized investment gains or losses on: (i) employee long-term incentive compensation-related investments, (ii) U.S. Treasury Bills, (iii) market-making in exchange-traded options and equities, (iv) seed capital investments, (v) derivatives and (vi) investments in our consolidated company-sponsored investment funds. Investments gains (losses) also include equity in earnings of proprietary investments in limited partnership hedge funds that we sponsor and manage.

Investment gains (losses) are as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	(in thousands)			
<b>Long-term incentive compensation-related investments</b>				
Realized gains (losses)	\$ 50	\$ 105	\$ 2,222	\$ 1,878
Unrealized gains (losses)	1,202	1,950	(637)	5,082
<b>Investments held by consolidated company-sponsored funds</b>				
Realized gains (losses)	(1,458)	9,788	1,375	38,169
Unrealized gains (losses)	3,292	14,512	23,755	33,062
<b>Seed capital investments</b>				
<b>Realized gains (losses)</b>				
Seed capital	3,608	976	(885)	21,871
Derivatives	(3,541)	(4,797)	(4,244)	(20,251)
<b>Unrealized gains (losses)</b>				
Seed capital	225	(3,245)	5,597	(9,205)
Derivatives	(2,200)	(83)	479	488
<b>Brokerage-related investments</b>				
Realized gains (losses)	(1,236)	(447)	(957)	(2,895)
Unrealized gains (losses)	623	49	155	(77)
	<b>\$ 565</b>	<b>\$ 18,808</b>	<b>\$ 26,860</b>	<b>\$ 68,122</b>

Other Revenues

Other revenues consist of fees earned for transfer agency services provided to company-sponsored mutual funds, fees earned for administration and recordkeeping services provided to company-sponsored mutual funds and the general accounts of AXA, EQH and their respective subsidiaries, and other miscellaneous revenues. Other revenues for the three months ended September 30, 2018 decreased \$0.9 million, or 3.6%, compared to the corresponding period in 2017, primarily due to lower mutual fund reimbursements of \$0.6 million. Other revenues for the nine months ended September 30, 2018 increased \$5.0 million, or 7.0%, compared to the corresponding period in 2017, primarily due to higher brokerage income of \$2.0 million and higher shareholder servicing fees of \$1.9 million.

## Expenses

The components of expenses are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
	(in thousands)				(in thousands)			
Employee compensation and benefits	\$ 357,442	\$ 329,777	\$ 27,665	8.4 %	\$ 1,059,515	\$ 979,387	\$ 80,128	8.2 %
Promotion and servicing:								
Distribution-related payments	106,372	106,106	266	0.3	322,827	300,951	21,876	7.3
Amortization of deferred sales commissions	4,651	7,629	(2,978)	(39.0)	17,362	25,015	(7,653)	(30.6)
Trade execution, marketing, T&E and other	50,793	50,266	527	1.0	164,095	155,993	8,102	5.2
	<u>161,816</u>	<u>164,001</u>	<u>(2,185)</u>	<u>(1.3)</u>	<u>504,284</u>	<u>481,959</u>	<u>22,325</u>	<u>4.6</u>
General and administrative:								
General and administrative	107,526	128,712	(21,186)	(16.5)	337,596	360,395	(22,799)	(6.3)
Real estate (credit) charges	(155)	18,655	(18,810)	(100.8)	6,490	39,400	(32,910)	(83.5)
	<u>107,371</u>	<u>147,367</u>	<u>(39,996)</u>	<u>(27.1)</u>	<u>344,086</u>	<u>399,795</u>	<u>(55,709)</u>	<u>(13.9)</u>
Contingent payment arrangements	52	(140)	192	(137.1)	157	215	(58)	(27.0)
Interest	2,711	2,105	606	28.8	7,952	6,227	1,725	27.7
Amortization of intangible assets	6,965	7,013	(48)	(0.7)	20,753	20,921	(168)	(0.8)
<b>Total</b>	<b>\$ 636,357</b>	<b>\$ 650,123</b>	<b>\$ (13,766)</b>	<b>(2.1)</b>	<b>\$ 1,936,747</b>	<b>\$ 1,888,504</b>	<b>\$ 48,243</b>	<b>2.6</b>

### Employee Compensation and Benefits

Employee compensation and benefits consist of base compensation (including salaries and severance), annual short-term incentive compensation awards (cash bonuses), annual long-term incentive compensation awards, commissions, fringe benefits and other employment costs (including recruitment, training, temporary help and meals).

Compensation expense as a percentage of net revenues was 42.0% and 40.6% for the three months ended September 30, 2018 and 2017, respectively. Compensation expense as a percentage of net revenues was 41.3% and 41.2% for the nine months ended September 30, 2018 and 2017, respectively. Compensation expense generally is determined on a discretionary basis and is primarily a function of our firm's current-year financial performance. The amounts of incentive compensation we award are designed to motivate, reward and retain top talent while aligning our executives' interests with the interests of our Unitholders. Senior management, with the approval of the Compensation Committee of the Board of Directors of AllianceBernstein Corporation ("Compensation Committee"), periodically confirms that the appropriate metric to consider in determining the amount of incentive compensation is the ratio of adjusted employee compensation and benefits expense to adjusted net revenues. Adjusted net revenues used in the adjusted compensation ratio are the same as the adjusted net revenues presented as a non-GAAP measure (*discussed earlier in this MD&A*). Adjusted employee compensation and benefits expense is total employee compensation and benefits expense minus other employment costs such as recruitment, training, temporary help and meals (which were 1.2% and 1.1%,

respectively, of adjusted net revenues for the three and nine months ended September 30, 2018, and 1.0% and 1.1% of adjusted net revenues for the three and nine months ended September 30, 2017, respectively), and excludes the impact of mark-to-market vesting expense, as well as dividends and interest expense, associated with employee long-term incentive compensation-related investments. Senior management, with the approval of the Compensation Committee, has established as an objective that adjusted employee compensation and benefits expense generally should not exceed 50% of our adjusted net revenues, except in unexpected or unusual circumstances. Our ratio of adjusted compensation expense as a percentage of adjusted net revenues was 47.5% and 48.2% for the three and nine months ended September 30, 2018, and 48.5% and 49.2%, respectively, for the three and nine months ended September 30, 2017.

For the three months ended September 30, 2018, employee compensation and benefits expense increased \$27.7 million, or 8.4%, compared to the three months ended September 30, 2017, primarily due to higher incentive compensation of \$9.7 million, higher base compensation of \$8.1 million, higher commissions of \$6.6 million and higher fringes of \$1.2 million. For the nine months ended September 30, 2018, employee compensation and benefits expense increased \$80.1 million, or 8.2%, compared to the nine months ended September 30, 2017, primarily due to higher incentive compensation of \$51.8 million, higher commissions of \$17.8 million, higher fringes of \$4.6 million and higher base compensation of \$3.0 million.

#### Promotion and Servicing

Promotion and servicing expenses include distribution-related payments to financial intermediaries for distribution of AB mutual funds and amortization of deferred sales commissions paid to financial intermediaries for the sale of back-end load shares of AB mutual funds. Also included in this expense category are costs related to travel and entertainment, advertising and promotional materials.

Promotion and servicing expenses decreased \$2.2 million, or 1.3%, during the three months ended September 30, 2018 compared to the three months ended September 30, 2017. The decrease primarily was due to lower amortization of deferred sales commissions of \$3.0 million and lower travel and entertainment expenses of \$0.6 million, offset by higher trade execution and clearing costs of \$0.5 million and higher marketing expenses of \$0.4 million. Promotion and servicing expenses increased \$22.3 million, or 4.6%, during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. The increase primarily was due to higher distribution-related payments of \$21.9 million, higher trade execution and clearing costs of \$5.7 million and higher transfer fees of \$2.4 million, offset by lower amortization of deferred sales commissions of \$7.7 million.

#### General and Administrative

General and administrative expenses include portfolio services expenses, technology expenses, professional fees and office-related expenses (occupancy, communications and similar expenses). General and administrative expenses as a percentage of net revenues were 12.6% and 18.1% (15.8% excluding real estate charges) for the three months ended September 30, 2018 and 2017, respectively. General and administrative expenses decreased \$40.0 million, or 27.1%, during the three months ended September 30, 2018 compared to the corresponding period in 2017, primarily due to a vendor termination accrual of \$19.7 million recorded in third quarter of 2017 and lower real estate charges of \$18.8 million. General and administrative expenses as a percentage of net revenues were 13.4% (13.2% excluding real estate charges) and 16.8% (15.1% excluding real estate charges) for the nine months ended September 30, 2018 and 2017, respectively. General and administrative expenses decreased \$55.7 million, or 13.9%, during the first nine months of 2018 compared to the same period in 2017, primarily due to lower real estate charges of \$32.9 million and a vendor termination accrual of \$19.7 million recorded in third quarter of 2017.

#### Contingent Payment Arrangements

Contingent payment arrangements reflect changes in estimates of contingent payment liabilities associated with acquisitions in previous periods, as well as accretion expense of these liabilities. There were no changes in estimates during the first nine months of 2018. The expense for the nine months ended September 30, 2017 reflects accretion expenses of \$0.4 million, offset by a change in estimate of the contingent consideration payable relating to our 2010 acquisition of \$0.2 million.

#### **Income Taxes**

AB, a private limited partnership, is not subject to federal or state corporate income taxes, but is subject to a 4.0% New York City unincorporated business tax ("UBT"). Our domestic corporate subsidiaries are subject to federal, state and local income taxes, and generally are included in the filing of a consolidated federal income tax return. Separate state and local income tax returns also are filed. Foreign corporate subsidiaries generally are subject to taxes in the foreign jurisdictions where they are located.

Income tax expense for the three months ended September 30, 2018 increased \$4.9 million compared to the three months ended September 30, 2017. The increase is due to higher pre-tax income as well as a higher effective tax rate in the current quarter of 4.4% compared to 2.8% in the third quarter of 2017, driven by an unfavorable increase in the mix of earnings across the AB tax filing group. The third quarter of 2018 effective tax rate includes a \$5.3 million benefit from the reversal of a FIN 48 reserve which is no longer required. Income tax expense for the nine months ended September 30, 2018 increased \$7.9 million, or 31.8%, compared to the nine months ended September 30, 2017. The increase is due to higher pre-tax income as well as a higher year-to-date effective tax rate of 5.2% compared to 5.1% in the first nine months of 2017, driven by an unfavorable increase in the mix of earnings across the AB tax filing groups. No changes were made during the first nine months of 2018 to the provisional amounts recorded as of December 31, 2017 relating to the 2017 Tax Cuts and Jobs Act.

#### ***Net Income (Loss) of Consolidated Entities Attributable to Non-Controlling Interests***

Net income (loss) of consolidated entities attributable to non-controlling interests primarily consists of limited partner interests owned by other investors in our consolidated company-sponsored investment funds. During the first nine months of 2018, we had \$23.6 million of net gains of consolidated entities attributable to non-controlling interests compared to net gains of \$50.0 million during the first nine months of 2017. Fluctuations period-to-period are driven by the number of consolidated company-sponsored investment funds and their respective market performance.

#### **CAPITAL RESOURCES AND LIQUIDITY**

During the first nine months of 2018 and 2017, net cash provided by operating activities was \$1.1 billion in each period. The decrease in net activity of our consolidated investment funds of \$157.2 million, higher cash provided by net income of \$99.4 million and an increase in net investments of \$46.7 million driven by higher net purchases of seed capital offset by lower net redemptions of broker dealer investments, was offset by an increase in broker-dealer related receivables (net of payables and segregated U.S. Treasury bills activity) of \$169.2 million and an increase in other assets of \$101.3 million.

During the first nine months of 2018, net cash used in investing activities was \$27.0 million, compared to \$24.9 million during the corresponding 2017 period. The change is due to higher purchases of furniture, equipment and leasehold improvements.

During the first nine months of 2018, net cash used in financing activities was \$1.5 billion, compared to \$820.5 million during the corresponding 2017 period. The change reflects higher net redemptions in consolidated company-sponsored investments funds of \$510.2 million, higher distributions to the General Partner and Unitholders of \$163.9 million as a result of higher earnings (distributions on earnings are paid one quarter in arrears), a decrease in overdrafts payable of \$105.2 million, and repayment of bank loans in 2018 of \$75.0 million. These changes were partially offset by lower net repayments of commercial paper in 2018 of \$123.1 million and lower repurchases of AB Holding Units of \$51.5 million.

As of September 30, 2018, AB had \$607.1 million of cash and cash equivalents (excluding cash and cash equivalents of consolidated company-sponsored investment funds), all of which are available for liquidity, but consist primarily of cash on deposit for our broker-dealers to comply with various customer clearing activities, and cash held by foreign subsidiaries of \$414.8 million.

#### ***Debt and Credit Facilities***

As of September 30, 2018 and December 31, 2017, AB had \$399.9 million and \$491.8 million, respectively, in commercial paper outstanding with weighted average interest rates of approximately 2.2% and 1.6%, respectively. Debt included in the statement of financial condition is presented net of issuance costs of \$1.7 million and \$1.1 million as of September 30, 2018 and December 31, 2017, respectively. The commercial paper is short term in nature, and as such, recorded value is estimated to approximate fair value (and considered a Level 2 security in the fair value hierarchy). Average daily borrowings of commercial paper during the first nine months of 2018 and the full year 2017 were \$372.2 million and \$482.2 million, respectively, with weighted average interest rates of approximately 1.9% and 1.2%, respectively.

On September 27, 2018, AB amended and restated the existing \$1.0 billion committed, unsecured senior revolving credit facility (the "Credit Facility") with a group of commercial banks and other lenders, reducing the principal amount to \$800.0 million and extending the maturity to September 27, 2023. The Credit Facility provides for possible increases in the principal amount by up to an aggregate incremental amount of \$200.0 million; any such increase is subject to the consent of the affected lenders. The Credit Facility is available for AB and Sanford C. Bernstein & Co., LLC ("SCB LLC") business purposes, including the support of AB's commercial paper program. Both AB and SCB LLC can draw directly under the Credit Facility and management may draw on the Credit Facility from time to time. AB has agreed to guarantee the obligations of SCB LLC under the Credit Facility.



The Credit Facility contains affirmative, negative and financial covenants, which are customary for facilities of this type, including restrictions on dispositions of assets, restrictions on liens, a minimum interest coverage ratio and a maximum leverage ratio. As of September 30, 2018, we were in compliance with these covenants. The Credit Facility also includes customary events of default (with customary grace periods, as applicable), including provisions under which, upon the occurrence of an event of default, all outstanding loans may be accelerated and/or lender's commitments may be terminated. Also, under such provisions, upon the occurrence of certain insolvency- or bankruptcy-related events of default, all amounts payable under the Credit Facility would automatically become immediately due and payable, and the lender's commitments would automatically terminate.

Amounts under the Credit Facility may be borrowed, repaid and re-borrowed by us from time to time until the maturity of the facility. Voluntary prepayments and commitment reductions requested by us are permitted at any time without fee (other than customary breakage costs relating to the prepayment of any drawn loans) upon proper notice and subject to a minimum dollar requirement. Borrowings under the Credit Facility bear interest at a rate per annum, which will be, at our option, a rate equal to an applicable margin, which is subject to adjustment based on the credit ratings of AB, plus one of the following indexes: London Interbank Offered Rate; a floating base rate; or the Federal Funds rate.

As of September 30, 2018 and December 31, 2017, we had no amounts outstanding under the Credit Facility. During the first nine months of 2018 and the full year 2017, we did not draw upon the Credit Facility.

AB has a \$200.0 million, unsecured 364-day senior revolving credit facility (the "Revolver") with a leading international bank and the other lending institutions that may be party thereto, which matures on November 28, 2018. The Revolver is available for AB's and SCB LLC's business purposes, including the provision of additional liquidity to meet funding requirements primarily related to SCB LLC's operations. Both AB and SCB LLC can draw directly under the Revolver and management expects to draw on the Revolver from time to time. AB has agreed to guarantee the obligations of SCB LLC under the Revolver. The Revolver contains affirmative, negative and financial covenants that are identical to those of the Credit Facility. As of September 30, 2018, we had no amounts outstanding under the Revolver. As of December 31, 2017, we had \$75.0 million outstanding under the Revolver with an interest rate of 2.4%. Average daily borrowing under the Revolver during the first nine months of 2018 and full year 2017 were \$16.7 million and \$21.4 million, respectively, with weighted average interest rates of approximately 2.7% and 2.0%, respectively.

In addition, SCB LLC currently has three uncommitted lines of credit with three financial institutions. Two of these lines of credit permit us to borrow up to an aggregate of approximately \$175.0 million, with AB named as an additional borrower, while the other line has no stated limit. As of September 30, 2018 and December 31, 2017, SCB LLC had no bank loans outstanding. Average daily borrowings of bank loans during the first nine months of 2018 and full year 2017 were \$2.2 million and \$4.5 million, respectively, with weighted average interest rates of approximately 1.5% and 1.4%, respectively.

Our financial condition and access to public and private debt markets should provide adequate liquidity for our general business needs. Management believes that cash flow from operations and the issuance of debt and AB Units or AB Holding Units will provide us with the resources we need to meet our financial obligations. See "*Cautions Regarding Forward-Looking Statements*".

## **COMMITMENTS AND CONTINGENCIES**

AB's capital commitments, which consist primarily of operating leases for office space, generally are funded from future operating cash flows. During October 2018, we signed a lease, which commences in mid-2020, relating to 205,000 square feet of space at our new Nashville headquarters. Our estimated total base rent obligation (excluding taxes, operating expenses and utilities) over the 15 year initial lease term is approximately \$125 million.

As general partner of AllianceBernstein U.S. Real Estate L.P. ("Real Estate Fund"), we committed to invest \$25.0 million in the Real Estate Fund. As of September 30, 2018, we had funded \$22.3 million of this commitment. As general partner of AllianceBernstein U.S. Real Estate II L.P. ("Real Estate Fund II"), we committed to invest \$28.0 million in Real Estate Fund II. As of September 30, 2018, we had funded \$13.4 million of this commitment.

See *Note 13* for discussion of contingencies.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the condensed consolidated financial statements and notes to condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses.

There have been no updates to our critical accounting estimates from those disclosed in “*Management’s Discussion and Analysis of Financial Condition*” in our Form 10-K for the year ended December 31, 2017.

## ACCOUNTING PRONOUNCEMENTS

See Note 2 to AB’s condensed consolidated financial statements contained in Item 1.

## CAUTIONS REGARDING FORWARD-LOOKING STATEMENTS

Certain statements provided by management in this report and in the portion of AB’s Form 10-Q attached hereto as Exhibit 99.1 are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. The most significant of these factors include, but are not limited to, the following: the performance of financial markets, the investment performance of sponsored investment products and separately-managed accounts, general economic conditions, industry trends, future acquisitions, integration of acquired companies, competitive conditions and government regulations, including changes in tax regulations and rates and the manner in which the earnings of publicly-traded partnerships are taxed. We caution readers to carefully consider such factors. Further, these forward-looking statements speak only as of the date on which such statements are made; we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. For further information regarding these forward-looking statements and the factors that could cause actual results to differ, see “*Risk Factors*” in Part I, Item 1A of our Form 10-K for the year ended December 31, 2017 and Part II, Item 1A in this Form 10-Q. Any or all of the forward-looking statements that we make in our Form 10-K, this Form 10-Q, other documents we file with or furnish to the SEC, and any other public statements we issue, may turn out to be wrong. It is important to remember that other factors besides those listed in “*Risk Factors*” and those listed below could also adversely impact our revenues, financial condition, results of operations and business prospects.

The forward-looking statements referred to in the preceding paragraph, most of which directly affect AB but also affect AB Holding because AB Holding’s principal source of income and cash flow is attributable to its investment in AB, include statements regarding:

- Our belief that the cash flow AB Holding realizes from its investment in AB will provide AB Holding with the resources it needs to meet its financial obligations: AB Holding’s cash flow is dependent on the quarterly cash distributions it receives from AB. Accordingly, AB Holding’s ability to meet its financial obligations is dependent on AB’s cash flow from its operations, which is subject to the performance of the capital markets and other factors beyond our control.
- Our financial condition and ability to access the public and private capital markets providing adequate liquidity for our general business needs: Our financial condition is dependent on our cash flow from operations, which is subject to the performance of the capital markets, our ability to maintain and grow client assets under management and other factors beyond our control. Our ability to access public and private capital markets on reasonable terms may be limited by adverse market conditions, our firm’s credit ratings, our profitability and changes in government regulations, including tax rates and interest rates.
- The outcome of litigation: Litigation is inherently unpredictable, and excessive damage awards do occur. Though we have stated that we do not expect any pending legal proceedings to have a material adverse effect on our results of operations, financial condition or liquidity, any settlement or judgment with respect to a pending or future legal proceeding could be significant, and could have such an effect.
- The possibility that we will engage in open market purchases of AB Holding Units to help fund anticipated obligations under our incentive compensation award program: The number of AB Holding Units AB may decide to buy in future periods, if any, to help fund incentive compensation awards depends on various factors, some of which are beyond our control, including the fluctuation in the price of an AB Holding Unit (NYSE: AB) and the availability of cash to make these purchases.
- Our determination that adjusted employee compensation expense should not exceed 50% of our adjusted net revenues: Aggregate employee compensation reflects employee performance and competitive compensation levels. Fluctuations in our revenues and/or changes in competitive compensation levels could result in adjusted employee compensation expense exceeding 50% of our adjusted net revenues.

- **Our Relocation Strategy:** While the expenses, expense savings and EPU impact we expect will result from our Relocation Strategy are presented with numerical specificity, and we believe these figures to be reasonable as of the date of this report, the uncertainties surrounding the assumptions on which our estimates are based create a significant risk that our current estimates may not be realized. These assumptions include:
  - the amount and timing of employee relocation costs, severance and overlapping compensation and occupancy costs we experience; and
  - the timing for execution of each phase of our relocation implementation plan.
- **Our 2020 Margin Target:** While our 2020 Margin Target is presented with numerical specificity, and we believe the target to be reasonable as of the date of this report, the uncertainties surrounding the assumptions on which the 2020 Margin Target is based create a significant risk that these assumptions may not be realized. These assumptions include:
  - the levels of positive net flows into our investment services;
  - the level of growth (in terms of additional AUM) in our alternatives product business;
  - the rate of increase in our fixed costs due to inflation and similar factors, the transitional costs related to our relocation strategy and the timing of such costs, the success we have in achieving planned new cost reductions (including those relating to our relocation strategy) and the timing of such cost reductions, and the investments we make in our business; and
  - general conditions of the markets in which our business operates, including modest appreciation in both equity and fixed income total investment returns.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes in AB's market risk from the information provided under "*Quantitative and Qualitative Disclosures About Market Risk*" in Part II, Item 7A of AB's Form 10-K for the year ended December 31, 2017.

### **Item 4. Controls and Procedures**

#### ***Disclosure Controls and Procedures***

Each of AB Holding and AB maintains a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed in our reports under the Exchange Act is (i) recorded, processed, summarized and reported in a timely manner, and (ii) accumulated and communicated to management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), to permit timely decisions regarding our disclosure.

As of the end of the period covered by this report, management carried out an evaluation, under the supervision and with the participation of the CEO and the CFO, of the effectiveness of the design and operation of the disclosure controls and procedures. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures are effective.

#### ***Changes in Internal Control over Financial Reporting***

No change in our internal control over financial reporting occurred during the third quarter of 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.