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PRESENTATION

Operator

Thank you for standing by and welcome to the AllianceBernstein third-quarter 2018 earnings review. At this time all participants are in a listen only mode. (Operator Instructions). As a reminder, this conference is being recorded and will be available for replay for one week. I would now like to turn the call over to the host for this call, the Director of Investor Relations for AB, Ms. Andrea Prochniak. Please go ahead.

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

Thank you, Jack. Good morning, everyone; welcome to our third-quarter 2018 earnings review. This conference call is being webcast and accompanied by a slide presentation as posted in the Investor Relations section of our website, www.AllianceBernstein.com. Seth Bernstein, our President and CEO; John Weisenseel, our CFO; and Jim Gingrich, our COO, will present our results and take questions after our prepared remarks.

Some of the information we present today is forward-looking and subject to certain SEC rules and regulations regarding disclosure. So I'd like to point out the Safe Harbor language on slide 1 of our presentation. You can also find our Safe Harbor language in the MD&A of our third-quarter 10-Q, which we filed this morning.

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

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

Thank you, Andrea. Good morning. Our third-quarter performance demonstrated once again that our relentless focus on long-term growth strategies is paying off. We are maintaining strong momentum with clients across our business, which is translating to organic growth in both our fee rate and assets.

Our portfolio fee rate increased by nearly 2% year on year thanks largely to continued growth in higher fee alternative and active equities. And equity net flows of $2.9 billion drove our total active net inflows of $2.5 billion. Essentially flat active fixed income net flows during the quarter represented a $5.5 billion improvement from the prior quarter. These are very strong results in challenging times.

Let's get into the specifics -- starting with a firm-wide overview on slide 3. Gross sales of $19.3 billion in the third quarter were down slightly year on year and up slightly sequentially. Client activity remained robust in active equities and alternatives and taxable fixed income sales increased markedly in both institutional and retail.

Firm-wide net inflows were $1.3 billion due to strength in both retail and institutional active equities. Total active inflows of $2.5 billion well exceeded passive outflows of $1.2 billion. Both quarter end and average assets under management were up sequentially and year on year in the third quarter. Sequential growth came from both net inflows and markets, while the year-on-year increase was from markets alone.

Slide 4 gives more detail on our flows by channel. Here you can see the sequential improvement in our flows, especially in institutional where we had one large second-quarter redemption. We returned to positive net flows in our retail business and we logged our seventh straight net flow positive quarter in private client where gross sales have been consistently strong and our asset retention rate remains at a 20-year low.

Let's turn to investment performance beginning on slide 5. In fixed income our percentage of outperforming assets for the one year period improved sequentially but remains low relative to history. We invest in emerging markets across our fixed income portfolio, including several of our largest strategies. So we've been adversely affected by the challenges in many emerging markets that have persisted throughout the year. Our three and five-year track records remain quite strong with 91% of our assets outperforming in each period.

In equities we are also experiencing near-term challenges in emerging markets and more persistent weakness in some of our larger growth and value strategies. This has led to a decline in outperforming assets across time periods. We provide more insight on retail fixed income and equity performance on slide 6 and 7.

The fixed income performance slide on slide 6 reflects the broad impact of our emerging market exposure on one-year performance. EM debt and high-yield were most affected, though long-term track records remain in the top two quartiles. Our income portfolios are holding up well. European income is top quartile across time periods. Mortgage income is first percentile for the one-year and 17th for the three-year; and AB income is top decile for the three- and five-year periods.

Slide 7 reveals pockets of weakness in areas like emerging markets, concentrated growth in international value equities. Yet overall investment performance remains quite strong across time periods for many of our active equity funds. Five funds in the table ranked top decile for multiple time periods: US Thematic, Global Low Vol, Global Core, European Equity and Discovery Growth and our five-year performance is particularly strong.

Of the 13 funds shown that qualify for this time period, four are top decile and six are top quartile. These solid long-term track records have been a major driver of our outstanding year-to-date active equity flows.

Let's move on to our client channels beginning with retail on slide 8. This quarter we experienced both ongoing momentum across a diverse array of our retail funds and improved flow trends in Asia ex-Japan fixed income. Our third-quarter gross sales of $12.6 billion were up 9% sequentially on increases in Asia ex-Japan, Japan and US retail.

On an asset class basis equity gross sales were up 74% year on year and 13% sequentially and represented more than half of total gross sales. While still depressed versus prior-year levels, taxable fixed income sales increased 5% on a sequential basis. This strength across asset classes is having a dramatic impact on our business mix, as you can see in the top left chart. Since 2016 equity, multi-asset and alts have grown from 26% of total retail gross sales to 56% for 2018 to date.

In Asia ex-Japan, where we've worked hard to reduce our dependence on volatile high-yield market, equity, multi-asset and alts were more than half of year-to-date 2018 gross sales, up from just 11% in 2016, driven largely by strong regional sales of our emerging markets multi-asset, or EMMA, fund and dramatic growth in our onshore Taiwan discretionary investment management business.

The bottom left chart shows both the diversity of our year-to-date flows and the strength of our active equity franchise. Of the 23 AB funds of net sales of $100 million or more year to date, 14 of them are equity funds. Retail active equity net flows have been positive for us for the past six quarters and we've attracted $6.2 billion in net inflows year to date. US Large Cap Growth is our biggest seller by far. Year-to-date net sales total $4.4 billion helped by very strong third-quarter sales in Japan.

Now I will talk about institutional on slide 9. Here, as in retail, we are experiencing continued momentum in active equities, strong improvement in fixed income and diverse sales and new business wins. Third-quarter institutional active equity gross sales of $1.1 billion were 30% of the channel total and represented our 5th $1-billion-plus quarter.

The top left chart shows dramatic ramp up in our active equity flows. Year-to-date gross sales of $6 billion compared with just $2.2 billion for the same period last year and a mere $700 million in 2016. Year-to-date net inflows of $3.5 billion compared with net outflows of $500 million and $1.2 billion for the two prior comparable periods. At the same time global fixed income gross sales bounced back nicely totaling $2.5 billion across diverse services like global, Canadian bond, investment grade and EM debt.

Strong long-term track records and active equity services continue to win over consultants. 70% of our year-to-date fundings have been linked to consultants at 13 different firms. Our year-to-date equity RFPs are up 34% and our alternatives RFPs have more than tripled year on year. As you can see from the bottom left pie charts, alternatives and equities represent more than half of our pipeline and it is nearly evenly split between US and non-US clients.

Just a few years ago fixed income and CRS dominated our pipeline and our business was concentrated in the US. The mix shift we are experiencing in both sales and awarded mandates is driving stronger revenues on our current and future business. Our third-quarter gross sales revenue was 32% higher than our 2017 quarterly average and, excluding CRS, new additions to our pipeline carry fee rate of more than 1.5 times the rate of our current business.

Moving to private wealth management on slide 10, our strong momentum continues in this channel as well, particularly among our highest net worth clients. Gross sales of $9.1 billion are our highest for year to date in 10 years and our asset retention rate is at a 20-year high. What's more, third-quarter net inflows of $300 million were positive for the seventh consecutive quarter. We are especially pleased to see our fastest organic growth among our clients with assets of $20 million or more with us.

As you can see from the top left chart, year-to-date 2018 annualized organic growth rate of 6.2% is nearly triple that of our overall channel and has more than doubled versus 2017. Our traction comes largely from strong client take-up of our alternatives and focused equity services. We have 15 services today with a $8.4 billion in deployed and committed assets, up from three services that totaled $2 billion four years ago. That is the bottom left chart.

Advisor productivity continues to rise as well. The number of advisors that are on track to exceed $200 million in annual production is up 66% so far this year versus 2017 to date. And I'm excited that we're beginning to grow our advisor base again. Net advisor headcount is up 7% year to date after flat to negative growth in the past two years.

I'll finish our business overview with the sell side on slide 11. Bernstein Research third-quarter revenues of $103 million declined 5% year on year and 3% sequentially. The bottom left chart shows how both US market volatility and volumes continued to drop in the third quarter. However, our results have been resilient so far considering the ongoing challenges in the US markets and the lagged effect of MiFID II implementation on our research payments.

Year-to-date revenues of $324 million are down less than 2%. We're confident that our position as the industry leader in both research and trading quality will continue to serve us well as the industry evolves. The fact is active managers, and there are so many of them, need unique and differentiated research now more than ever. And MiFID II implementation has shown that as institutions assess the quality of their service providers, Bernstein consistently rises to the top.

This further validates our long-term strategy of investing for global growth in both research and trading. We once again turned in a strong showing in the 2018 Institutional Investor All-America Research Team Survey moving to a number five weighted ranking from number six last year with number one rankings in seven sectors.

We are helping clients adapt to new liquidity landscape in Europe with new trading tools and expanding our global reach as well. Of the 27 new stocks we launched coverage on in the third quarter, 23 were outside the United States.

I will finish with a brief MiFID II update. Unbundling of our research payments has resulted in delayed revenue recognition that we estimate will reduce full-year revenues by 2% to 4%. Otherwise the process has been smooth and our relationships with clients are as strong as ever.

Finally, slide 12 highlights key accomplishments for the quarter. While our short-term track record has been disappointing, our long-term investment performance continues to demonstrate our ability to deliver the idiosyncratic stock specific return streams our clients want and can't replicate themselves.

And strong growth in areas we've worked to evolve, develop and scale, like active equities and alternatives, is creating positive sales revenue and feed trends, which combined with prudent expense management is driving sustained improvement in our financial results. Now John will take you through the specifics.

John Weisenseel - *AllianceBernstein L.P. - CFO*

Thank you, Seth. Let's start with the GAAP income statement on slide 14. Third-quarter GAAP net revenues of $850 million increased 5% from the prior year period. Operating income of $214 million increased 32% and the 25.1% operating margin increased by 720 basis points. Operating expenses in the prior year period were negatively impacted by a nonrecurring charge to terminate an outsourcing vendor contract and real estate write offs. GAAP APU of $0.68 compared to $0.46 in the third quarter of 2017.

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

Our adjusted financial highlights are included on slide 15. Third-quarter revenues of $727 million, operating income of $216 million and our margin of 29.7% all increased both sequentially and year on year. We earned and will distribute to our unitholders $0.69 per unit compared to $0.51 for last year's third quarter.

Higher base and performance fees combined with lower non-compensation expenses in the third quarter this year primarily drove the improvement versus both prior periods. Lower compensation expenses also contributed to the sequential improvement in results. We delve into these items in more detail on our adjusted income statement on slide 16.

Beginning with revenues, third-quarter net revenues of $727 million increased 10% year on year. Third-quarter base fees increased 6% from the same prior period due to higher average AUM across the retail and private wealth distribution channels and higher fee rate realization reflecting a mix shift from lower to higher fee products.

Compared to the third quarter 2017, total average AUM increased 3.8% and the portfolio of fee rate increased 1.7% to 41.5 basis points. Approximately $9 million or 29% of the $31 million total increase in third-quarter 2018 base fees came from higher fee rate realization. Third-quarter performance fees of $41 million compared to $5 million in the same prior year period and include $22 million earned on our Financial Services Opportunity Fund 1 and $13 million for our Real Estate Equity Fund 1.

As discussed on prior quarters' earnings calls, we are currently in the process of liquidating investments in both of these funds which results in the recognition of performance fees.

Third-quarter revenues for Bernstein research services has decreased 5% year on year on lower revenues in the US and Asia, partially offset by higher European revenues. Total Bernstein revenues were adversely affected by a stronger US dollar and lower fee realization due to the delay in revenue recognition resulting from the unbundling of research payments from trading commissions and a shift to lower fee electronic trading.

Second-quarter net distribution expenses decreased $2 million year on year due primarily to lower amortization and deferred sales commissions. Other revenues increased $3 million compared to the same prior period because of higher dividends and interest earned on broker-dealer investments which were partially offset by lower dividends and interest earned on our seed investment balances.

Third-quarter interest expense increased $7 million year on year from higher interest paid on broker-dealer customer balances primarily as a result of higher interest rate increases.

Moving to adjusted expenses, all in our total third-quarter operating expenses of $511 million increased 3% year on year. Total compensation of benefits increased 8% year on year on higher base, incentive compensation and commission accruals. We accrued compensation at 47.5% of adjusted net revenues for the third quarter this year compared to 48.5% for the two prior comparable quarters.

With year-to-date adjusted revenues [of] 15% we believed it was appropriate to reduce the comp ratio in the third quarter. The 100 basis point reduction added approximately $0.03 to our third-quarter EPU.

We plan to revisit our comp ratio and adjust accordingly as we gain further clarity as to the full year's revenue and compensation requirements for our business. Given current market conditions we do not expect the fourth quarter comp ratio to exceed 47.5%.

Third-quarter promotion servicing was flat versus the same prior year period and decreased 16% sequentially due to lower seasonal T&E, marketing and trade execution expenses. This year's second-quarter expenses included marketing spend for our annual Bernstein Research Strategic Decisions Conference and for international advertising programs.

Third-quarter G&A decreased 12% year on year due to lower occupancy expense and other G&A which more than offset higher professional fees. The prior-year period included a $15 million net nonrecurring charge, the net of a $20 million outsourcing contract termination charge and a $5 million Asia vat refund credit.

Third-quarter operating income of $260 million increased 30% from the prior year as revenue growth outpaced expense growth. The third quarter incremental margin was 78%. Excluding last year's $15 million net nonrecurring charge, the incremental margin was 55% demonstrating the operating leverage of our business and our continued diligent expense management. Third-quarter operating margin of 29.7% increased 470 basis points year on year and 240 basis point sequentially.

Our third-quarter adjusted EPU was $0.01 higher than our GAAP EPU and our adjusted operating income was $2 million higher than our GAAP operating income. This is primarily due to the following two items we excluded from our adjusted results because they're not part of our core or recurring business operations.

First, we reclassified $2 million of distributions paid related to deferred compensation from partners' capital to compensation expense as required by GAAP reporting because the deferred compensation was subsequently forfeited.

Second, we recorded a $1 million reduction in the fair value of our investment in a third-party provider of financial market data and trading tools. We acquired this investment last year through the exchange of software technology we developed for an ownership stake in this company. All of the non-GAAP adjustments are outlined in the appendix of this presentation.

The third-quarter effective tax rate for AllianceBernstein LP was 4.4% and includes the benefit of the reversal of a $5 million FIN 48 reserve that is no longer required. We currently expect the effective tax rate for full-year 2018 to be slightly above 5%.

I'll finish with an update on our planned corporate headquarters relocation to Nashville. Our timing and estimates for the related transitional costs and ongoing annual expense savings are on track so far. Year to date we have incurred $5 million of net transitional costs. Nearly all are employee-related and are included in the comp ratio calculation and the compensation accrual. Of the $5 million year-to-date transitional costs, approximately $4 million was recorded in the third quarter.

As discussed on last quarter's earnings call, we currently estimate that we will incur total transition costs of approximately $125 million to $135 million for the period 2018 through 2024 when our New York City building lease expires. These costs include employee relocation, severance, recruitment and overlapping compensation and occupancy costs.

Over the same period we expect to realize total expense savings of about $150 million to $160 million, which exceed the total transition costs. However, we will incur transition costs prior to the realization of expense savings. We currently anticipate that the largest reduction in EPU during the transition period could be approximately $0.04 in 2018. We expect to achieve breakeven or possibly a slight increase in EPU by 2021 and then EPU accretion for each year thereafter.

Beginning in 2025, once the transition period has been completed, we estimate ongoing annual expense savings of approximately $70 million, the result of a combination of occupancy-, compensation-, fringe benefit- and consulting-related savings. Our estimates for both the transition cost and the corresponding expense savings are based on our best current assumptions of employee relocation costs, severance, recruitment and overlapping compensation and occupancy costs.

Our estimates for both the timing of incurring transition costs and realizing the related expense savings are based on our current relocation implementation plan and the timing for the execution of each phase. The actual total charges eventually recorded and the related expense savings realized, and the timing of the EPU impact are likely to differ from our current estimates as we implement each phase of our headquarters relocation.

And with that Seth, Jim and I are pleased to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Michael Carrier, Bank of America.

Jeff Ambrosi - *BofA Merrill Lynch - Analyst*

Actually Jeff Ambrosi filling in for Mike. Just wanted a quick question on the active equity inflows. Obviously very strong and particularly really strong compared to your competitors. So just given some of the slippage in the performance, the volatile markets and kind of maybe what you're seeing in 4Q, do you think this pace of inflows we are seeing into active equities is sustainable?

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

Look, it's always hard to forecast flows. I think one of the things that we find really encouraging is the breadth of flows. Seth mentioned that a good chunk of it was coming from large cap growth, but there are another eight services where we saw net flows greater than $100 million during the quarter.

So performance certainly does have an impact on flows; there is no doubt about that, as do capital markets. That said, the long-term track records remain really solid. The support we have from consultants is terrific. And the breadth that we are seeing in terms of the momentum is very encouraging. So I will leave it at that.

Jeff Ambrosi - *BofA Merrill Lynch - Analyst*

Okay. And then maybe just one on the $0.04 for 2018, the headwind on EPU due to the transition costs, how much of that was in -- I know you mentioned $4 million. So I guess just trying to figure out how much is left for that $0.04 for the fourth quarter.

John Weisenseel - *AllianceBernstein L.P. - CFO*

Well, I can let you calculate that, but you should assume it's probably more than double what we booked to date. And it makes sense because a lot of that transition cost is actually overlapping comp. And so, we started staffing up in Nashville in July and so that really just got underway during the third quarter.

And so, right now you can see our headcount is up year to date and most of that is due to this overlapping compensation of headcount. And so, we are going to have a full quarter impact of that now in the fourth quarter, when in the third quarter was only a partial quarter.

Jeff Ambrosi - *BofA Merrill Lynch - Analyst*

Okay, all right, thanks for taking the questions.

Operator

Bill Katz, Citi.

Bill Katz - *Citigroup - Analyst*

So, one of your peers has announced a relatively sizable transaction. As you think about your business model, it certainly seems like on a de novo basis there's a ton of momentum. But how are you thinking about sort of maybe capital allocation from here? Do you need to scale a bit more is it just sort of you stay focused on the core business? So your thoughts on the implications of what sort of [learning to] earlier in the week.

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

I think it's fair to say that we like the cards we have. We think that the pace in the underlying business is strong and we don't feel that we need additional scale to have penetration with the distributors who are critical to our success.

Our acquisition criteria has I think been quite consistent. We look all the time. We look at stuff that's complementary to our existing business. We want to plug new products and services into our global distribution network and scale it. If we are looking for a firm or a team we want -- look and identify one where the culture and investment philosophy align with our own.

We want to make sure that the deal is structured to align the interests of the people who are joining with the people who are here and our unitholders. And we look forward to be accretive fairly quickly. So, I don't feel that we have any pressing need from a competitive position to change our path. And so, while we continue to be opportunistic, I don't think anything has changed in that regard.

Bill Katz - *Citigroup - Analyst*

Okay. And my follow-up question is -- just going back to the question on equities, maybe stepping back more broadly, the industry itself is really struggling for unit growth, yet you are one of the more refreshing stories in the space.

It might be too hard to simplify across geographies and distribution channels, but is there any commonality here of why you're being so successful in terms of both the gross and net sales, particularly in higher impact active equity and alternative? Particularly with [equities that for] the industry really struggles overall.

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

I think, look, you've followed us for a long time. We set out with respect to equities to build a very differentiated and diverse platform. I think that's why, from my earlier comment, you're seeing pretty broad-based momentum.

Similarly, if I think about the overall platform, we set about to diversify that as well. So you're seeing strength across a range of our alternative products as well from a momentum standpoint.

It feels terrific because you look at it and the strength is pretty broad based geographically. You saw that -- certainly if you look at our Asia-Pacific flows that they are much more diverse today than they were several years ago. So this I think is a result of things we've been talking about for a long time.

Bill Katz - *Citigroup - Analyst*

Thanks.

Operator

Robert Lee, KBW.

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

Just curious, would it be possible to translate the organic growth into more of an organic revenue growth? Obviously better fee rate, growing higher fee services faster. But if we were to look at this quarter, would we be thinking that the organic revenue growth rate was closer to 1% or 2% or how would you frame that?

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

I think you think about it as -- John mentioned that the fee rate growth is about 2% year on year and then you had about $2.5 billion in active equity flows offset by some passive outflows and just do the arithmetic on that. Because the revenue growth is ultimately going to be a function of what's happening with both fee rate and your net flows.

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

Great. Then maybe a follow-up question on the private client -- private wealth business. You highlighted that -- starting to see some growth in advisor headcount or it stopped shrinking and have third class I guess for this year. I know it usually takes several years to get new relationship managers up to production, so to speak, or relatively fuller production.

So is there any kind of sense as you've started this over the last couple years that if we look ahead to like -- you would expect come 2020, 2021 that you'd start having a broader range of relationship managers hitting their -- starting to hit their stride and that could kind of at least sustain or maybe enhance the growth of that business?

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

Well, that's certainly our hope and expectation. We hire dedicated recruiters into our private client area and have revamped our training programs and development programs in order to make it a more appealing career path. And it's early days and, look, I'm really delighted with the 7% growth that I think we're posting this year.

But as you pointed out, Rob, it's kind of a three- or five-year, really five-year kind of period of time before people hit their stride. And so, for this to have a really meaningful impact it's going to take time.

Operator

Dan Fannon, Jefferies.

James Steele - *Jefferies LLC - Analyst*

This is James Steele filling in for Dan Fannon. Thanks for taking my question. I saw that the FlexFee funds are getting some industry recognition, specifically the wealth management award. Just curious if this has translated into any broader industry adoption and then maybe just a general update on how efforts are coming along there.

John Weisenseel - *AllianceBernstein L.P. - CFO*

Yes, it is continuing to grow at the pace we hoped it would. We are -- we have a large number of distributors now out there supporting it and we were really appreciative of the recognition. But as I think we've said before, this will take years to develop and mature, but we are happy with the pace that we've experienced so far.

James Steele - *Jefferies LLC - Analyst*

Great, thank you.

Operator

Craig Siegenthaler, Credit Suisse.

Craig Siegenthaler - *Credit Suisse - Analyst*

Given KKR's recent success, I just wanted to see if the firm has taken a look at converting to C Corp. And I wanted to see if you have an estimate of what tax leakage would be through a conversion.

John Weisenseel - *AllianceBernstein L.P. - CFO*

Sure. Craig, it is John. We have definitely taken a good look at this and at the current time we've decided that we have no plans to move forward with converting and really for a number of reasons. One, with our current partnership structure, we actually have a payout ratio of over 100% in terms of we payout all of our earnings as well as we buy back the units that we issue to employees for stock-based compensation.

The combined effective tax rate of both the private partnership and public partnership is way below 10% compared to the corporate rate of 21%. And once you convert to a C Corp. you can't go back. So if rates change obviously you could be in a precarious position.

It's not clear to me either that if you convert that it necessarily increases the liquidity of the stock as well, because we have a limited float outstanding, we have a large majority owner and we have high employee ownership as well.

And similarly, too, there is leakage in this if you do convert, and the multiple expansion that would be required would be quite high just to avoid destroying shareholder value. So we will continue to monitor it, but right now we don't plan to convert.

Craig Siegenthaler - *Credit Suisse - Analyst*

And then just as my follow-up, in Europe where research and training are now unbundled, how has the trading operation been performing on a standalone basis? And is your agency trading operation profitable at this point?

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

In answer to the last question, trading for us is quite profitable. Look, I think we are fortunate, not just in Europe but throughout the world, to have a very robust and well-regarded trading operation particularly on the electronic side but also in high touch.

So, as you know, many counterparties that we deal with want to deal with people on a global basis. And the fact that we have that global footprint I think has benefited us including in Europe. So the growth on the electronic side is quite good and high touch is hanging in there as well.

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

And we have seen that post MiFID and --.

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

This year, yes.

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

Yes.

Operator

(Operator Instructions). Bill Katz, Citi.

Bill Katz - *Citigroup - Analyst*

Thank you for taking the follow-up questions. Just a couple of them. John just mentioned the charges associated with the headquarters migration, is that a GAAP number, is that a non-GAAP number? I just want to refresh my memory. And then will you continue to break that out so we can see what the core trends are?

John Weisenseel - *AllianceBernstein L.P. - CFO*

Sure. Bill, the answer to your second question is yes, we will continue to break it out and supply it to all of you each quarter and keep you abreast of our progress. The first question is it's treated both the same for GAAP and adjusted. So, it's a charge for both the GAAP results and the adjusted results.

Bill Katz - *Citigroup - Analyst*

Okay. And then a couple broader questions if I could still take some time. So, staying with the Bernstein business for a moment, you had mentioned a 2% to 4% drop this year versus last year due to timing recognition of revenues. Is that just what it is, so we would expect that could bounce back sometime in 2019?

And then the broader question is -- there has been some discussion about potentially scaling that business more so. Do you feel like you are at scale in the sell side business as you are in the asset management business? Or would acquisitions be something of consideration there as well?

John Weisenseel - *AllianceBernstein L.P. - CFO*

Why don't I -- this is John, I will take the first question and then I'll leave the second question to either Jim or Seth. But in terms of what's happening here with the unbundling of the research payments, it's actually -- for most of this we're getting paid in arrears.

So it's pushing out the revenue recognition and that's our estimate as far as the impact on this year, a 2% to 4% decline. But I think we have to get through a full cycle of this before we can see if there's any impact on the business besides that.

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

With respect to the sell side overall, I think, consistent with all of our businesses, we continue to invest in the sell side and see opportunities particularly in Asia. We are in the process of opening an office in India and so -- look, we will be selective in terms of our investments, but where we see opportunity we will continue to pursue them as we have in the past.

Bill Katz - *Citigroup - Analyst*

Okay and just one final one -- thanks for your patience for taking all of them this morning. Just in high net worth, you were considerate to call out the high net worth within the private wealth overall. (Technical difficulty). I was wondering if you could expand on the focus on that element of the business. Is it just more profitable, faster growth, higher fees? Just trying to get a sense of the magnitude and the focus on it.

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

It has been much faster growth for us as we indicated. It has tripled the growth rate of the rest of the business. They have also as a group been much more open to the targeted services that we've offered up whether it was alts or in equities. So their willingness, their ability to understand and the size of their appetite has been very appealing in terms of expanding those relationships.

A lot of clients with that kind of money have a manager already. And so it is a really powerful way of entering into new relationships when you are offering a service that they haven't seen before or works within the portfolio that they've created. The fee rates are certainly not higher at the larger size, but it has been a particularly productive barrier for us and one that we want to pursue because obviously it has a greater scaling opportunity for us.

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

I think, Bill, if you look at the industry it's no secret that the ultrahigh net worth part of the market is the faster growing part of the market. And in addition to the investments that we've made in alternatives and focused equities, which are particularly relevant for that part of the market, it also dovetails nicely with what we've done in terms of wealth planning, wealth transfer, charitable giving, things of that sort where we have an opportunity to build a relationship with a family that is truly broad-based. And that's why I think you see not only our success in bringing those types of families into the firm, but also keeping them in the firm as well.

Bill Katz - *Citigroup - Analyst*

Thank you very much.

Operator

There are no further questions at this time. I would now like to turn the call back over to Andrea Prochniak for closing remarks.

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

Thank you, everyone, for participating in our conference call today. Investor Relations is available all day should you have any follow-ups. Thanks and have a great day.