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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Alexander Blostein *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

Craig William Siegenthaler *Crédit Suisse AG, Research Division - MD*

Daniel Thomas Fannon *Jefferies LLC, Research Division - Senior Equity Research Analyst*

Michael Roger Carrier *BofA Merrill Lynch, Research Division - Director*

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

William R. Katz *Citigroup Inc, Research Division - MD*

PRESENTATION

Operator

Thank you for standing by, and welcome to the AllianceBernstein First Quarter 2020 Earnings Review. (Operator Instructions) As a reminder, this conference is being recorded and will be available for replay for 1 week.

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

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

Thank you, Heather. Good morning, everyone, and welcome to our first quarter 2020 earnings review. This conference call is being webcast and accompanied by a slide presentation that's posted in the Investor Relations section of our website, www.alliancebernstein.com. 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'll present today is forward-looking and subject to certain SEC rules and regulations regarding disclosure. So I'd like to point out the safe harbor language on Slide 1 of our presentation. You can also find our safe harbor language in the MD&A of our first quarter 2020 10-Q, which we filed earlier this morning. Under Regulation FD, management may only address questions of material nature from the investment community in a public forum. So please ask all such questions during this call.

Now I'll turn it over to Seth.

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

Thank you, Mark. Good morning, and thank you all for joining us today. First and foremost, on behalf of AB, I want to sincerely thank those in our communities whose focus and dedication remains unwavering as we collectively address the pandemic and its impact on the broader economy. AB's employees, the vast majority of whom are working remotely around the world, remain focused on serving our clients' distinct needs during a time of pronounced stress. As a firm, we proactively implemented our business continuity plan as the crisis unfolded and have transitioned smoothly.

Our firm entered the year and remains in very sound financial condition, enabling our teams to focus their efforts on business entrusted to us by our clients.

Buoyant financial markets in the first half of the quarter were reversed by a sharp global sell-off in March across virtually all asset classes, amplified by liquidity pressures and deleveraging, as market participants reacted to the pandemic deepening impact on the global economy.

Against this backdrop, AB's financial results improved versus the year ago period and declined sequentially. Despite the March selloff, we experienced robust retail sales throughout the quarter and achieved organic growth in both our institutional channel and our active equities platform.

Investment performance was, however, mixed. While relative performance for active equity strengthened, fixed income performance was significantly challenged due to illiquidity and asset declines in several sectors, notably high yield, emerging markets and structured credit. Bernstein Research benefited in this environment with strong growth as volatility led to global trading volumes doubling in March.

Let's get into the specifics. Starting with a firm-wide overview on Slide 3. Gross sales of $31.6 billion in the quarter were up $8.5 billion or 37% from a year ago and up $4.6 billion or 17% sequentially. Despite healthy inflows in January and February, the market volatility in March resulted in firm-wide net outflows for the quarter of $5.6 billion. To put March into context, combined industry-wide U.S. and offshore taxable fixed income outflows were $365 billion in March, the highest ever and more than 4x the next largest outflow month.

Quarter end assets under management of $542 billion declined slightly year-over-year and 13% from year-end. While average assets under management of $602 billion increased 12% year-over-year and decreased slightly sequentially.

Slide 4 shows our quarterly flow trend by channel. Firm-wide net outflows were $5.6 billion, driven by retail fixed income as institutional flows remain positive and private wealth experienced modest net outflows.

In retail, we had record gross sales of $24.2 billion active equities generated inflows, while active fixed income experienced $5 billion of net outflows concentrated in the 13-day period in March when investors fled the safety of cash and U.S. treasuries at the expense of other sectors.

Flows, including those from Asian retail investors for our key fixed income products, stabilized in late March, and we've experienced net inflows within retail for April month-to-date.

In the bottom left chart, you can see institutional gross sales of $3.9 billion grew from the quarter -- the prior year period, resulting in net inflows of $400 million. Continued active equity inflows of $1.5 billion grew by 13%, offsetting fixed income outflows, including a previously disclosed $1 billion AXA withdrawal.

In private wealth, gross sales improved relative to sequential and prior year periods, while redemptions led to modest net outflows.

Now let's turn to investment performance beginning on Slide 5. First quarter fixed income performance was significantly challenged. Most of our fixed income strategies maintained the strategic overweight to credit sectors, several of which such as securitized markets and emerging markets debt experienced liquidity challenges exacerbated by deleveraging as market participants sold assets at the height of the crisis in March.

High-yield spreads widened dramatically by more than 750 basis points to distressed levels of 1,100 basis points in mid- to late March, impacting strategies with high-yield allocations. Sector and security selection also detracted from performance. As a result, our 1-, 3- and 5-year relative performance deteriorated with 32%, 38% and 45% of assets outperforming, respectively. That said, we have confidence that our sector allocations will benefit from conditions gradually normalizing over time. Thus far in April, we are encouraged by better liquidity conditions, a stronger buyer appetite and moderating high-yield spreads.

Global high yield's allocation to securitized assets, financials and emerging markets detracted in the quarter, resulting in bottom quartile performance. Our high income fund trailed significantly due to its wider, multi-sector approach compared to peers as roughly half of the portfolio is invested in non-U.S. high-yield assets, which underperformed. Despite a poor quarter, the fund still has a superb long-term track record in this category. And as shown before, it can bounce back.

Our experienced fixed income investment teams are hard at work, revalidating investment decisions, and we are confident in our people, process and approach. By contrast, our first quarter equity investment performance strengthened with 75% of assets outperforming over 3 years, up from 62% at year-end. In the most recent 1-year period, 72% of assets outperformed.

Several of our equity strategies had strong relative performance in a down market, a quality bias aided our large-cap growth fund, a lower beta helped our strategic equities portfolio and a less cyclical exposure benefited strategic equities and concentrated international growth. The latter was no energy exposure and an underweight to financials.

Slides 6 and 7 provide more insight on retail fixed income and equity investment performance. The fixed income table on Slide 6 reflects the performance challenges, as mentioned. Among our key offshore strategies, American income has outperformed the median over the 1-, 3- and 5-year periods, with first quarter performance supported by the fund's barbell allocation to U.S. treasuries.

Of our U.S. taxable funds, our income fund is positioned differently from peers with a higher tracking error, which was exhibited this quarter. Despite challenging near-term performance, the fund is in the sixth percentile over a 10-year period. And our municipal strategy showed mix with high income and intermediate diversified muni outperforming for the 1-, 3- and 5-year periods, while municipal bond inflation lagged.

Moving to equities on Slide 7. Among offshore offerings, our global low vol strategy continued to place in the top quartile in all-time periods, while global core is top decile for the 3- and 5-year periods, and our growth strategies did well this quarter. Of our U.S. retail funds, large-cap growth continues to be a standout in the top decile for 1-, 3- and 5-year periods.

Discovery growth, global core equity and select U.S. long/short were in the top quartile over the 3- and 5-year periods. Within our value offerings, relative value outperformed while our broader offerings lagged. Relative to the broader market, style headwinds persisted as the first quarter was the third worst quarter for value since 1975. Additionally, every energy exposure detracted from performance.

Let's move on to our client channels, beginning with retail on Slide 8. Retail sales continue to pace with record first quarter sales of $24.2 billion, up 48% year-over-year and up 28% sequentially. January and February were our first and second highest gross sales months ever. And despite the crisis, March was our fourth highest gross sales month ever.

As the top left chart shows, sales grew in all regions versus both the prior year period and sequentially. That said, we were not immune to the fixed income redemptions experienced across the industry, with $11 billion of net outflows in March. Net flows, including those from Asian retail investors for our key fixed income products stabilized in late March and have been positive April to date. Importantly, we continue to see consistent strength in active equities with 12 straight quarters of organic active equity growth. Our scale retail offerings remained diverse with 43 products of more than $1 billion in assets, 17 of them equities, 15 fixed income and 11 multi assets.

Notable U.S. retail net flow rankings include: AB income 16th out of 146; large cap growth, 16th out of 348; small-cap growth, 12th out of 170; and global core equity, 8th out of 249. Offshore net flow rankings include: low vol, fourth out of 667 and American growth second out of 80.

Now I'll discuss institutional on Slide 9. Gross sales were $3.9 million, with net inflows of $400 million. Excluding $1 billion of AXA redemptions, net inflows would have been $1.4 billion. Sales continue to be led by our active equity platform, which at $2.2 billion, was more than 50% of channel sales.

Active equity gross sales have exceeded $1 billion for 10 of the past 11 quarters. Net inflows of $1.5 billion in active equities translated into a 13% organic growth rate, led by our global core, international small cap and global concentrated growth strategies. This is the eighth of the last 9 quarters in which active equities have grown organically. Our institutional pipeline grew to $15.4 billion at quarter end, with $3 billion in pipeline additions in the first quarter.

And for the third quarter in a row, our pipeline's annualized fee base has exceeded $40 million, well diversified across asset classes and geography. We also had 2 consultant upgrades in the quarter, with 70% of our pipeline adds consultant-linked.

In our multi-asset strategies, we successfully launched new merger arbitrage and event-driven funds and are targeting a systematic macro launch in the second quarter. We expect that AXA will redeem the remaining $13 billion in fixed income assets during the second quarter, for which fees are low and the revenue impact is not significant.

Moving to Private Wealth Management on Slide 10. Gross sales of $3.5 billion increased 8% year-over-year and 30% sequentially. Net inflows were positive through February before turning negative for the quarter in March, reflecting the market-wide selloff. Adding back $1 billion in assets converted to unmanaged cash during the quarter, which we view as capacity for future investment, flows were positive.

$50 billion of relationship assets are covered by our dynamic asset allocation overlay strategy, which derisked during the quarter reducing volatility for clients. During the extraordinarily volatile period, advisers were focused intensely on client service and communication, providing reassurance through frequent engagement. Webinars have doubled and videos have tripled versus our prior cadence, while unique visitors to our blog increased by 80%, evidence of strong client engagement.

We are routinely providing insightful market commentary to over 50,000 contacts. All of which occurred during a seamless transition to a work-from-home environment, a testament, in particular, to our IT and operations group supporting those professionals.

We continue to innovate in support of our increasingly complex clients. During the quarter, we raised $100 million through our proprietary SMA Tax-Loss Harvesting portfolio. Assets under management focused on ESG strategies increased 31% year-over-year. And alternatives committed and deployed grew to $11.4 billion, up $1.6 billion versus the prior year period. Advisor head count is up 6% as targeted, while advisor turnover remains low.

I'll finish our business overview with the sell-side on Slide 11. Bernstein Research had a very strong quarter as increased global market volatility led to higher trading volume and customer engagement. First quarter revenues grew by 43% year-over-year and 17% sequentially. Excluding Autonomous, revenues grew 31% year-over-year.

Global trading volumes were robust, with March volumes doubling across all markets versus prior year period. While April month-to-date trading volumes have subsided from the March peak, they remain well above the prior year. We also benefited from a mix shift to higher touch trades in the quarter. Engagement was a key differentiator as we conducted 63 webinars with over 4,000 clients in attendance, with client phone call volume double that of our prior year period.

While we're encouraged by these results, we note that the long-term secular pressures facing this business remains. We strengthened our offering in the quarter by initiating coverage of 3 sectors: U.S. Internet, European retail and U.S. oil services.

At the 1-year anniversary of the Autonomous acquisition, we are well positioned as a leader in global financials research. We are capturing cost savings as expected, and our cross-selling efforts are on track with more than 100 potential new clients on trial through the end of April.

I'll close by highlighting some of our first quarter accomplishments on Slide 12. Active equity performance further strengthened across the board and diversified offering with 75% of assets outperforming over 3 years. Our retail equity offerings included top 10 quartile funds across multiple style, capitalization and geographic categories. As a result, we continue to drive net inflows in active equities across both retail and institutional channels. Our experienced fixed income teams are laser-focused on improving performance, which we have conviction will rebound over time. Retail continued to drive record sales in the first quarter, while our institutional channel continued to enjoy a growing pipeline of higher fee business.

Bernstein Research benefited from higher market volatility, driving strong global trading volumes and high customer engagement. Alternative offerings were bolstered by the first close of our 2020 JV fund of funds as well as successful launches of our merger arb and event-driven funds.

In summary, AB remains well positioned to support our clients and to capitalize on the investment opportunities in front of us. We continue to invest in key long-term growth opportunities while remaining ever attentive to today's dynamic challenges.

Now I'll turn it over to John to review our financials.

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

Thank you, Seth. Let's start with the GAAP income statement on Slide 14. First quarter GAAP net revenues of $874 million increased 10% from the prior year period.

Operating income of $178 million increased 6% and the 23.3% operating margin increased by 340 basis points. GAAP EPU of $0.63 compared to $0.49 in the first quarter of 2019.

As always, I'll focus my remarks from here on our adjusted results, which remove the effect of certain items that are not considered part of our core operating business. We base our distribution to unitholders upon our adjusted results which we provide in addition to and not as substitutes 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. First quarter revenues of $744 million, operating income of $206 million and our margin of 27.6%, all increased year-on-year. We earned and will distribute to our unitholders $0.64 per unit compared to $0.49 for last year's first quarter. Higher base fees, Bernstein Research services revenues, combined with minimal G&A expense growth primarily drove the stronger results.

Revenue, operating income and margin decreased from the fourth quarter of 2019 due to lower performance fees and the usual first quarter sequential increase in our compensation ratio. We delve into these items in more detail on our adjusted income statement on Slide 16.

Beginning with revenues. First quarter net revenues of $744 million increased 13% year-on-year. First quarter base fees of $594 million increased 10% from the same prior year period due to higher average AUM across all 3 distribution channels. Compared to the first quarter 2019, total average AUM increased 11.7% and the portfolio fee rate of 39.6 basis points declined 1.5% year-on-year calculated on a comparable basis.

Beginning this quarter, we are reporting both our adjusted base fees and portfolio fee rate net of fees paid to distributors from investment management based fees. These fees totaled $15 million and $9 million for the first quarters of 2020 and 2019, respectively. This adjustment reduced the fee rate for the first quarter by approximately 1 basis point.

In previous quarters, we reported these fees under a separate line item titled net distribution expense in the revenue section of our adjusted income statement. First quarter performance fees declined sequentially from last year's fourth quarter as expected, since most of our performance-based fee strategies have annual calculation periods, which end in the fourth quarter.

First quarter Bernstein Research revenues of $129 million increased 43% compared to the prior year's first quarter and increased 17% sequentially. Excluding revenues from the Autonomous acquisition, which closed on April 1, 2019, Bernstein Research revenues increased 31% from the prior year first quarter due to higher revenues in the U.S., Europe and Asia resulting from increased customer trading activity attributed to greater global market volatility, which also drove the sequential increase.

Investment losses of $7 million compared to gains of $4 million in the prior year's first quarter and it's attributed to seed investment losses. Other revenues decreased 18% compared to the same prior period due to lower dividends and interest earned on our broker-dealer investments.

Interest expense decreased 47% for the first year -- for the first quarter year-on-year because of lower interest paid on broker-dealer customer balances due to lower interest rates.

Moving to adjusted expenses. All in, our total first quarter operating expenses of $538 million increased 8% year-on-year. For the first quarter of this year, transition costs related to our Nashville corporate headquarters relocation totaled $8 million compared to estimated expense savings of $6 million resulting in a net $2 million reduction in operating income and about a net $0.01 reduction in EPU. The net $2 million represents increased occupancy costs.

For the first quarter of 2019, relocation transition costs totaled $7 million compared to estimated expense savings of $3 million, resulting in a net $4 million reduction in operating income. Of the net $4 million, approximately $3 million is compensation related and the remaining $1 million represents increased occupancy costs. Total compensation and benefits expense increased 10% year-on-year, driven primarily by higher base and incentive compensation.

As discussed on last quarter's call, we accrued compensation at a 48.5% of adjusted net revenues for the first quarter of this year compared to 49.5% for the same period of the prior year and 44.8% for last year's fourth quarter.

Assuming financial markets remain at the current levels or trend higher, we plan to continue accruing compensation at a 48.5% ratio in the second quarter, with the option to adjust accordingly throughout the remainder of the year if market conditions change.

First quarter promotion and servicing increased 10% versus the same prior year period due to higher Bernstein Research services trade execution expenses on higher global trading -- client trading activity and higher transfer fees, partially offset by lower T&E expenses resulting from COVID-19-related travel restrictions. The 8% sequential decrease from last year's fourth quarter was due to lower T&E, partially offset by higher trade execution costs attributed to higher Bernstein Research trading volumes.

G&A increased 2% versus the first quarter of the prior year due to higher occupancy related to our headquarters relocation, technology expenses and portfolio servicing fees, partially offset by lower professional fees. The 4% sequential decrease was due primarily to lower professional fees, other taxes and favorable foreign exchange translation, partially offset by increased portfolio servicing fees.

First quarter operating income of $206 million increased 30% from the prior year as revenue growth outpaced expense growth. First quarter operating margin of 27.6% was up 350 basis points year-on-year. The incremental margin was 54%, reflecting the operating leverage of our business and our continued focus on managing expenses.

The sequential decline from last year's fourth quarter was due primarily to the higher comp ratio.

You may have noticed that our first quarter adjusted operating income was $27 million higher than our GAAP operating income. This difference is primarily due to the deconsolidation of certain seed investments in our adjusted results, which we had consolidated for GAAP reporting. Consolidating these results decreased GAAP operating income but did not affect net income or EPU. In addition, our first quarter adjusted EPU was $0.01 higher than GAAP EPU, which is due primarily to the exclusion of acquisition-related costs and the write-off of an investment, which had been received in exchange for the sale of software technology, which are not part of our core business operations. All of the non-GAAP adjustments are outlined in the appendix of this presentation.

The first quarter effective tax rate for AllianceBernstein, L.P was 5.3%. Going forward, we still expect a full year effective tax rate of 5.5% for 2020 based upon our current forecasted mix of domestic versus foreign pretax earnings.

Finally, our guidance for the impact of our Nashville corporate headquarters relocation currently remains unchanged. We still expect a $0.06 reduction in full year 2020 EPU breakeven to slightly positive EPU accretion in 2021 and EPU accretion for each year thereafter.

In addition, we estimate ongoing annual expense savings in the range of $75 million to $80 million per year beginning in 2025, once the transition period is completed.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question will come from the line of Craig Siegenthaler.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

I wanted to go back to the elevated fixed income redemptions in March, just not for AB, but for the whole industry. There was a record amount of retail derisking in the month. It looks like those trends have stabilized now, but what's your perspective on what happened in March? And do you think that period is really behind us now?

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

Craig, it's Seth. At the moment, things have certainly stabilized, but that is, I think, principally a function of the comprehensive steps the Federal Reserve and the Treasury took to inject liquidity into, first, the front end and then into the longer end of the market. What really happened is that the market just simply seized up and there was no liquidity or very little liquidity even in on-the-run treasuries. And we've discussed in the past, and I think you're all familiar with the evolution of fixed income market trading, the reduction of liquidity provided by broker dealers. And all of that came back to haunt us in this moment, which started with the pandemic, but frankly, markets stopping everywhere simultaneously really, I think, exposed a vulnerability to broader fixed income markets.

All of that said, Craig, those days in March were quite harrowing and reminiscent of the global financial crisis, at least from my perspective. And I do think it was the rapid and enormous comprehensive approach that the Fed and other central banks took that has caused markets to begin to trade at tighter bid offers in larger size. But it's fragile. There's no doubt about that. So I don't know that it's over, but certainly, over the course of the month of April, conditions have normalized quite a bit. We've been able to sell at much higher prices securities that there wasn't a bid for in late March. So -- and we've been able to buy instruments we couldn't otherwise get our hands on. So things have normalized as of now.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

And then just on your own bond business, we're seeing broadly softer performance year-to-date. It looks like many of your funds were long credit, especially into March. How do you explain that recent performance to your clients versus the stronger longer-term performance?

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

Well, yes, I think the way you described it is accurate. The truth of the matter is, despite near-term performance challenges, our strong long-term track records remain pretty consistently strong for the group. And we don't think that clients are particularly flustered at the moment because we've demonstrated in the past the ability to bounce back. We underwrote the securities we owned rigorously to start with, we've reunderwritten them, we feel there is a lot of potential to recover.

It could take quite a bit of time for that to happen. But there's no doubt that the underperformance will potentially create headwinds for us. Part of the issue that I think is distinctive to us, Craig, relative to others, is that our income suite really takes a very broad market approach to investing. So for example, our global high-yield allocations outside of the global high-yield market includes securitized financials, emerging markets, all of which underperformed the global high-yield market generally. It was not the individual securities per se. It was the correlation of the underperformance of all of them. So we think there's value there. I think there's significant value, in particular, in the securitized area, where we saw particularly volatile conditions and limited liquidity. So I think it's the fact that we take a much broader opportunity set than many of our peers do because U.S. high yield was much the best-performing subsegment of that market. So as other markets normalize, I think you will see recovery.

Operator

Your next question comes from the line of Dan Fannon.

Daniel Thomas Fannon - *Jefferies LLC, Research Division - Senior Equity Research Analyst*

Just kind of following up on that. Some of your performance has gotten a lot of publicity given [Itron] and his position on the other side of it, I guess, can you talk about some of the underlying holdings within some of the trends that have been written about? And I guess what that type of publicity you think has on, obviously, the impact of kind of gross sales or redemptions? And are you kind of actively looking to market against some of the kind of negative press that's been out there?

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

Thanks for the question. The negative press is really, I think, focused on CMBX6, which, as you know, is a synthetic index that references about 25 CMBS securities issued back in 2012. The principal antagonist here has been pointing out that there's exposure within that index to malls and to retail, that's significant. I would just point out it has exposure to retail, office, apartment, hotels and others, and it's across 1,500 loans. We only have tranches rated BB and higher. Look, we have quite a lot of conviction around that trade, but I should just be really straight about it and say, our exposure is in the mid-single digits in these key products. So assertions that it had the risk of taking these products to much lower prices, I think, is just baseless on its face.

We have been, I think, prudent in the way we've sized these exposures. And we've made quite a lot of money on these positions for our clients over time. In fact, if you look, the losses that we saw in this fund attributable to CMBX, at least in American income, for example, was worth 12 basis points in negative return versus the broader high-yield market. So it is not at all an issue from our perspective of a disproportionate impact. We feel that our underwriting was good, that the exposures that we have through that particular derivative are really quite modest. The retail exposure within it is really to strip centers that haven't suffered to the extent the same headwinds that the large regional malls have, which has been, I think, the crux of this thesis. And so I think there's a lot of unfounded assertions here that are just not borne out by the facts of the position itself. We've articulated that in different forms. And we continue to be comfortable with our underwritings. But I think the message to take away is this is not a position that's going to make or break our performance in any of these funds that we have it. I would further add that the securitized markets broadly are really more impacted by the consumer rather than corporate exposures. And while there's clearly a lot of uncertainty in the air, particularly around forbearance, we see a lot more liquidity returning to that market. And we think the regulators and others know just how important it is to maintain a well-functioning market for asset-backed securities. So we're pretty comfortable with what we have today.

Daniel Thomas Fannon - *Jefferies LLC, Research Division - Senior Equity Research Analyst*

Great. That's helpful. And just a further clarification on your April month-to-date comments in terms of the return to inflows. I assume that's both a reduction in redemptions, plus some continued strong gross sales. But is it in the same products, the same region that we're seeing the same level of pressure? Could you maybe dissect a little bit more about the rate of change from March to April?

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

I'll give a bit of color on it. It is in the same products, by and large, there hasn't been much of a rotation in products. We have seen AIP and global high yield move to inflows again. And those are principally sold in Asia, although they're also sold in Europe and elsewhere. In the United States as well, we're seeing positive flows and in Europe. But I would certainly say, and all these are net flows, just to your earlier point. I would say the overall level of net flows is certainly not at the level we saw in January or in early February. So it is positive. We continue to see strong gross sales as well. Equities continues to be an important part of our mix of what we're selling.

Operator

Your next question is from the line of Mike Carrier.

Michael Roger Carrier - *BofA Merrill Lynch, Research Division - Director*

Seth, just one more on the fixed income performance. Just given the sharp rebound that we have seen in April in some of the sectors and some of the asset classes and realize it's a very short time frame. But I guess any context on how much of the weakness in 1Q has been recaptured already? And maybe it's just too short of a time frame that you don't have the data, but just more curious if that's helped quite a bit?

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

Look it's -- Mike, thanks for your call. It certainly has helped. I was just looking at global high yield, for example, which I think today is down 11% and it was up 4% month-to-date, just to give you some sense of that. Now I was just looking at the Barclays Global High Yield Index for that regard. We've seen real recoveries in high yield, in securitized, in emerging markets. But I think it's been more pronounced in the U.S. versus offshore. So it's there, and there continues to be a pretty strong bid. But again, markets are fragile, and it's too early to declare that we're out of this stage of the market.

Michael Roger Carrier - *BofA Merrill Lynch, Research Division - Director*

Okay. That makes sense. And then just as a follow-up, John, just on the guidance, any change on the noncomp outlook and how you're thinking about that given the backdrop? And then same thing on the pace of buyback, just given the normal seasonal...

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

No, Mike, on the noncomp, the guidance would still stay the same. We think we can grow those or limit the growth to roughly around the rate of inflation. And yes, the promotion servicing was up obviously higher than that this particular period, but it was driven by the increased trade execution costs that come along with the increased revenue at Bernstein Research, but that's a good thing. But absent that, we're still looking at around the rate of inflation for both G&A and promotion servicing. Excluding the ramp-up in the occupancy expense for Nashville, which I mentioned, this particular quarter was the bulk of that $2 million increase that you see in G&A.

In terms of the buybacks on your second question, our goal, as we've spoken about in the past, over the long-haul is to offset the dilution that comes from the issuance of our stock-based comp that we typically issue in December. And so we've been in the market, and we've been buying units and we'll continue to do that and continue to offset that dilution going forward.

Operator

Our next question is from the line of Bill Katz.

William R. Katz - *Citigroup Inc, Research Division - MD*

So first question, just going back to the institutional business, haven't spent too much time on that on this call. You mentioned you've got 2 incremental consultant additions this quarter. Is there any way to sort of size the opportunity set underneath that? How large are these consultants maybe relative to your back book a little bit? And I think you've mentioned that 70% of your volume, $3 billion pickup this quarter was consultant-driven. Just trying to get a sense of magnitude here.

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

Bill, it's Seth. Look, it's hard to sort of identify it with strategies that aren't really haven't been key sellers for us. So that's new potential. But it's clearly been a really important driver of demand through our institutional channel.

We've really had pretty strong and pretty increasingly consistent appreciation of consultants of what we've been able to accomplish in the equity space. And so it's been very heartening. Also in the alternatives space as well, we've seen additional support. And that's also outside the United States, but it's hard to sort of dimension that for you.

William R. Katz - *Citigroup Inc, Research Division - MD*

Okay. But it's incremental products, though, from what you're saying?

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

Yes. At least in 1 case.

William R. Katz - *Citigroup Inc, Research Division - MD*

Understood. Okay. And then sort of a follow-up, a little tactical nature. But you mentioned that April fixed income flows were positive for retail. You step back and look at the whole franchise and recognized still a couple of days to go in the month. But any sense of how you're tracking overall in terms of unit growth? And any allocation shifts you're seeing incrementally?

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

Allocation shift in regard to flows?

William R. Katz - *Citigroup Inc, Research Division - MD*

Right.

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

I think it's pretty much a similar pattern. I should check and get back to you. But the pattern I don't think has really shifted meaningfully in terms of where the demand was. John, you want to add something?

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

Yes. Bill, it's John. So -- no, it's the same types of things. So it's -- on the retail sector, it's the high-yield products have come back into vogue, as Seth had mentioned, with American income, global high yield, they're currently running positive month-to-date. Also just in terms of -- on the equity front as well, the active equities continue, particularly both in the retail as well as in the institutional space as well.

William R. Katz - *Citigroup Inc, Research Division - MD*

Okay. So just to clarify, are you in net positive flow month-to-date overall?

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

We are today. And again, we'll be reporting -- we still have a couple of days to close out the month, and then we'll be reporting our flows in about another week or so.

Operator

Your next question is from the line of Alex Blostein.

Alexander Blostein - *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

Building on the fixed income discussion, a little bit of more of an industry question, I guess, for you guys. So when we look at the trends in the first quarter and March in particular, obviously, it wasn't just you that had challenging relative investment performance in high-yield and other credit-related products. It was really more of an industry phenomenon across the board. How much do you guys think that's going to matter once risk appetite comes back to a greater extent? So in other words, how much does the relative investment performance within high yield and fixed income matters relative to what we've seen, let's say, in equities in the past? And do you think this could result in a bigger shift towards passive products or individual credit selection will remain pretty important?

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

I don't think -- Alex, it's Seth. I don't think the underperformance portends necessarily moves to individual selection. I mean, I think the risk of passive continues. That hasn't changed, although I think that the sharp diversion between underlying net asset value and prices of ETFs matters a lot. And so I think that creates its own arbs and uncertainties for nonprofessional investors. I think that ultimately, this is a market that should favor active. It wasn't -- this has not been the situation at least for AB, where we have seen material deterioration in our security selection insight. We continue to have good security selection insight in fixed income. And that matters enormously because it's the idiosyncratic blow-ups in fixed income that ultimately, I think, paralyze or destroy longer-term track records rather than sector allocation calls. I think that the real issue for fixed income isn't necessarily, at least in my mind, the relative underperformance today, although that's a challenge and it will create headwinds over time, but rather overall level of interest rates. I think interest rates bordering on 0 were potentially for governments going negative, I think, does portend negative implications for broader fixed income demand and its place in portfolios.

Alexander Blostein - *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

Great. And then just a follow-up question around the institutional business. Clearly, strong pipeline -- strong fees in the pipeline. Given the rapid decline at the end of the quarter and, obviously, continued uncertainty in the market, how should we think, I guess, about timing of that coming through? Understandably, things obviously tend to slow down when volatility picks up, but just looking for a little color on when these...

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

Yes. We continue to see fundings, but I suspect it will slow down. John may have a different -- an additional point to add there. But I think we will see some slowdown. But I will tell you, activity levels remain pretty high. And so that's encouraging for us.

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

Yes. I would just add to that. It's John. For the quarter, we actually added about $3 billion to the pipeline, and we funded $2.4 billion and in addition to that, we had, what we call, pass-throughs, which are transactions that actually come into the firm and get funded and never end up in the pipeline, and that was $1.2 billion for the quarter. And so I think even as we went through the crisis or the couple of weeks there in March, we were still pitching deals to institutions and continue all the way through April. So I think it still bodes very well for the pipeline, and we look forward to seeing more fundings from that coming forward.

Operator

Your next question is from the line of Robert Lee.

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

I guess, maybe a question, John, for you. Just want to make sure I understood the comp guidance. So is that assuming kind of current asset levels and rebound quarter to date as opposed to kind of where everyone finished Q1?

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

I'm sorry, Mike, I missed the -- Rob, I missed the first part of that. Could you just repeat that, please?

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

I'm sorry, on your comp ratio guidance, that was based on current asset levels as opposed to end of Q1 asset levels. Just want to make sure you're on that.

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

Currently, right? Correct. So if we're seeing where the markets are currently now or we trend higher, we'd expect to accrue at the 48.5% in the second quarter.

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

Okay. And then maybe, Seth, I'm just curious, it hasn't come up in a while, I think in the last few calls, the whole performance fee, fulcrum fee, however, you described it on funds that had been pretty much in a top of conversation for a while and then kind of fell off. Just kind of curious how that initiative -- where that initiative stands and how you're kind of thinking about whether that's had or having any type of demand impact?

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

Rob, I'm so glad you brought that up because it hasn't come up in the last couple of calls. Look, we always said it was going to be a slow process, and -- but we are continuing on that road. We remain with 13 distributors. Total AUM in 7 funds at the end of the quarter was roughly $280 million. Frankly, we are facing the same headwinds more generally toward active management, we're doing somewhat better than others maybe, but we're still facing those same headwinds. And so it's fine, but we've tried to manage people's expectations around it, and I think to date has proven that to be the sensible path. So that's where we stand now.

Operator

Okay. And there are no further questions at this time. Mr. Griffin, I will now turn the call back over to you.

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

Thank you, everyone, for participating in the call today. Feel free to contact Investor Relations with any further questions, and have a great day.

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

Good-bye.

Operator

Thank you for joining. You may now disconnect.
