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AB.N - Q1 2025 AllianceBernstein Holding LP Earnings Call

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## PRESENTATION

### Operator

Thank you for standing by, and welcome to the AllianceBernstein's first-quarter 2025 earnings review. (Operator Instructions)

As a reminder, this conference is being recorded and will be available for replay on our website shortly after the conclusion of this call. I would now like to turn the conference over to the host for this call, Head of Investor Relations for AB, Mr. Ioanis Jorgali. Please go ahead.

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

Good morning, everyone and welcome to our first-quarter 2025 earnings review. This conference call is being webcast and accompanied by a slide presentation that's posted in the investor relations section of our website [www.alliancebernstein.com](http://www.alliancebernstein.com).

With us today to discuss the company's results for the quarter are Seth Bernstein, President and CEO; and Tom Simeone, CFO; Onur Erzan, Head of Global Client Group and Private Wealth, will join us for questions after our prepared remarks.

Some of the information we'll present today is forward-looking and subject to certain SEC rules and regulations regarding disclosure, so I would like to point out to the Safe Harbor language on slide 2 of our presentation.

You can also find our Safe Harbor language in the MD&A of our 10-Q which we filed this morning. We base our distribution to unit holders on our adjusted results which we provide in addition to and not as a substitute for our GAAP results.

Our standard GAAP reporting and a reconciliation of GAAP to adjusted results are in our presentation appendix, press release, and our 10-Q. Under regulation FD, management may only address questions of material nature from the investment community in a public forum. So please ask all such questions during this call.

Now I'll turn it over to Seth.

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

Good morning, and thank you for joining us today. Against the backdrop of escalating uncertainty around trade policy and economic growth, AllianceBernstein delivered another strong quarter. Our results highlight the strength of our franchise, the depth of our investment expertise, and the breadth of our globally diversified platform.

On slide 3, I'll review the key business highlights of our first quarter. First, all three of our distribution channels grew organically in the first quarter, generating \$2.7 billion in firmwide active net inflows. Our differentiated distribution platform gives us an edge in growing markets like Asia, US high net worth, and insurance, where we've consistently gained market share, including in the first quarter of 2025.

Coupled with the extensive range of our investment capabilities that span across traditional and alternative assets, we're strategically positioned to help our clients navigate turbulent markets and benefit from rapidly emerging trends.

The fixed income reallocation theme is a prime example of our ability to capture demand where it exists, having generated over \$35 billion of active fixed income inflows over the last two years. Even amidst the return of rates volatility and heightened policy risks, we successfully generated \$1 billion in active fixed income inflows during the first quarter of 2025.

Despite the downturn in overseas demand for our taxable fixed income strategies largely driving a \$1.4 billion in firmwide taxable outflows, we continue to enjoy robust growth for our tax exempt franchise, which generated \$2.4 billion of inflows. Our industry leading retail Muni platform has been a driving force of organic growth, achieving an impressive 19% annualized growth rate in the first quarter.

Over the past five years, retail tax-exempt has consistently grown at double digit rates, reaching \$46 billion in AUM, more than doubling in size since 2020. The secular growth and private alternatives is another theme that benefits us. During the quarter, we had over \$2.5 billion of institutional deployments into our private markets platform, coupled with inflows from high net worth into our asset-based finance and private credit strategies.

Active equity outflows of \$2.5 billion moderated compared to recent quarters, with institutional redemption slowing down while retail flows flip back to positive. In the first quarter of 2025, we generated \$500 million of retail inflows driven by solid demand for our US large cap growth, global strategic core, US select, and our security of the future strategies.

Secondly, we are actively expanding our private market platform by deepening existing partnerships, establishing new ones, and diversifying the growth avenues of our business. Our fee paying and fee eligible assets under management have reached \$75 billion as of quarter end, marking a 20% increase compared to a year ago.

We've successfully deployed nearly 40% of Equitable second \$10 billion commitment and are leveraging our expertise to extend the addressable market with institutional and retail oriented solutions. We are replicating the success of our evergreen capabilities in middle market lending that have been historically marketed within our private wealth channel.

We're excited with the momentum we're seeing as we extend our private credit franchise to the institutional channel with customized solutions. In asset-based finance, we're expanding our retail offerings to help our own private wealth clients access this exciting new asset class while also venturing into new distribution platforms.

Our credit opportunities interval fund has exceeded \$200 million in assets under management, including allocation from third party retail clients. In the first quarter we've engaged with nearly a dozen new RIAs and we're encouraged by the increasing number of advisors exploring alternative investments with AB.

We continue to leverage our strong local relationships in the RIA channel where we already partner with national aggregators and independent advisors in areas such as municipal bonds. Third, our diversified asset mix coupled with our enhanced operational efficiency provides downside protection to our revenue base and to our margins.

As asset managers, we value diversification, and we've developed an all-weather platform that mitigates concentration risks by geography or asset class with liquid and illiquid credit accounting for nearly half of our assets under management, we believe we're less vulnerable to significant equity market downturns. The strategic initiatives we completed last year optimized our expense structure to expand the upside from favorable market conditions while also fortifying our business against downturns.

We enter a turbulent market environment from a position of strength. Fourthly, the durable base fee rate that has held relatively steady over the past several years. Our all-in fee rate, including base and performance fees, is another differentiating factor for AB. This relative stability results in symmetrical growth between our management fees and our AUM.

Moving on to slide 4, I'll highlight our strengthening relationship with Equitable. We firmly believe that being affiliated with a leading insurance provider is a competitive advantage for AB.

Leveraging the permanent capital commitment from Equitable helps us seed and scale our higher fee, longer dated private alternative strategies. Investment grade quality private credit is a key growth opportunity for both Equitable and AllianceBernstein, and we've now deployed nearly \$14 billion of the \$20 billion committed by Equitable.

This has enabled us to build out new capabilities like residential mortgages and private ABS which we intend to expand with our other insurance and institutional clients.

We continue to scale our distribution, leveraging our leading brand awareness and our expertise in vehicle versatility to expand our third party growth avenues. This virtuous circle of delivering additional yield to our partner's balance sheet while seeding new strategies with permanent capital enables AllianceBernstein to sustainably expand our business.

We remain on target to grow our private markets AUM to \$90 billion to \$100 billion by 2027. Slide 5 reflects the summary page with our key financial metrics. Tom will follow up with more commentary on our results.

Turning to slide 6, I'll review our investment performance starting with fixed income. Despite resurgent rates volatility driven by inflationary pressures caused by policy uncertainty, bonds served as a safe haven during the first quarter of '25, with Bloomberg's US aggregate index returning 2.8%.

Our fixed income performance benefited from active duration management and our allocation to investment grade, while our security selection within high yield detracted from relative performance. Overall, our performance improved with 64% and 63% of our AUM outperforming over the one and three year periods, while 81% outperformed over the five-year period.

Quarter to date dynamics have been tumultuous, with markets reacting sharply to tariff headlines, global growth uncertainty, and shifting demand for US treasuries. Despite policy risks intensifying and credit spreads widening to levels reminiscent of the regional banking crisis in 2023, fixed income is proving relatively resilient compared to the significant drawdowns we've seen in US equity markets.

For example, at the peak of the drawdown caused by a tariff announcements, the S&P 500 was down 15% while the US high yield index was down less than 2%. While the elevated rate volatility may dampen sentiment and appetite for duration, we view the value proposition for fixed income as intact.

Specifically, we see the belly of the yield curve as an attractive spot to manage duration risk given the ongoing buildup of term premium. Credit remains an area of opportunity with all-in yields over 8% presenting an appealing risk adjusted return profile compared to long term equity forecasts.

With policies still in motion, markets may continue to react faster than fundamentals, creating dislocations as well as opportunities for new investors. In this environment, we're constructive on fixed income, and we have the right strategies to compete for the next wave of the reallocation.

Turning to equities, near record high valuations in US equities combined with a dimming economic outlook for the US arising from a changing trade policy triggered a rotation into international equities. The percentage of AUM outperforming over the one year period deteriorated to 23%. The shift was primarily driven by our US large cap growth fund distributed in Japan, flipping from above to below median.

A significant factor contributing to this change was the strengthening of the yen during the quarter, impacting comparisons against other local growth managers. The three year figure had improved to 52% while the five year declined to 45%.

This performance trend reflects the market dynamic of excessive concentration in a few mega cap names within the AI scene. Our investment focus on companies demonstrating consistent growth with disciplined approach to valuation also posed challenges in the later half of 2024.

Year-to-date, despite the volatility following the tariff announcements in April, our active platform has demonstrated significant relative performance. US Large Cap growth has generated nearly 300 basis points of relative outperformance, positioning it near the top [quartile] (corrected by company after the call) year-to-date. Our strategic core portfolios designed to offer downside protection in volatile environments have outperformed their benchmarks by 300 to 400 basis points year-to-date.

Furthermore, our global, international, and emerging markets portfolios have established track records that have exhibited strong performance. Additionally, our US core strategies select equities and US strategic equities have continued to deliver robust returns following a successful year, showcasing their ability to generate alpha across various market conditions and attracting client interest.

Overall, we had eight active equity strategies that generated over \$100 million in inflows during the first quarter of 2025. Now turning to slide 7. Retail posted its seventh straight quarter of positive net flows, with sales continuing to track at record pace levels, offsetting elevated redemptions during a turbulent quarter.

Actively managed asset classes were inflowing in the first quarter, led by enduring organic gains in tax exempt, solid inflows into multi-asset, and modest inflows into active equities.

We continued to gain retail market share in tax exempt for the ninth consecutive quarter, growing at a 19% annualized rate. Our all market income strategy drove multi-asset sales in the first quarter, particularly out of the Asia Pacific region.

Active equity also grew organically, supported by continued inflows into our US large cap growth strategy in addition to global strategic core and US select equities. Thematic investing is another area with significant potential. Our security of the future portfolio continues to attract solid inflows, surpassing \$1 billion in AUM just one year since we launched.

Diversifying our product offerings remains a cornerstone of our distribution strategy, and we're very pleased with the early success we're seeing as we scale our services across our global footprint. Offsetting our organic gains, our taxable fixed income franchise posted outflows of \$1.4 billion, primarily as our marquee income strategies, AIP and GHY had outflows given the uncertain rate outlook.

Base management fees grew 10% year-over-year reflective of market growth and organic flows while they were down 3% versus the prior quarter due to the equity drawdown. Organic-based fee growth was 2% over the last 12 months and slightly below 1% as of the first quarter.

Moving to slide 8. Institutional sales and flows rebounded in the first quarter of 2025 to the highest level since fourth quarter of 2022, breaking a streak of persistent outflows. Channel inflows were driven by an accelerated pace in alternative deployments across various services, including private placements, commercial real estate debt, residential loans, and CLOs.

Active equity outflows of \$1.9 billion in the first quarter moderated versus recent trends. Our pipeline grew to \$13.5 billion in the first quarter, up \$2.8 billion sequentially, reaching its highest levels in seven quarters. Note that institutional funding is also accelerated with roughly \$3 billion in pass-through mandates that were not captured within our pipeline.

The decrease in the pipeline fee rate was mainly attributed to the addition of a sizable lower fee mandates including an \$800 million in passive index equities and \$1.1 billion in systematic fixed income. Our ongoing efforts to market our systematic strategy continues to attract strong client interest, enabling us to grow our institutional market share in fixed income. However, these mandates tend to be lower-fee and will impact pipeline fee rates.

Turning to slide 9. Private wealth posted solid inflows in the first quarter, growing to an annualized organic growth rate of more than 2%, the fastest pace in two years. As a reminder, our private wealth net inflows exclude reinvested dividends and interest income, which is typically reported within net assets across key wealth management peers.

Our organic growth was fueled by increased sales momentum underscoring robust client engagement and advisor productivity. We're still focused on supporting and growing our advisors sales force, ramping up our recruiting effort in line with our long term target of 5% headcount growth.

Demand dynamics within the channel were positive across all asset classes except for active equity. Fixed income inflows exceeded \$800 million driven by our Muni tax aware strategies, money markets, and global plus.

Solid demand for our passive tax harvesting strategy led to \$600 million in inflows into passive equities growing organically at nearly 10% annualized rate. Alt MAS inflows of nearly \$500 million growing at 7% annualized rate, marked the eighth consecutive quarter of organic growth through alternatives and multi-asset within Bernstein.

Private alternatives, including real estate debt, CarVal, and private credit accounted for approximately half of those inflows. Fundraising in private alternatives continued to be a significant driver of channel activity, with approximately \$400 million raised in the first quarter.

Base management fees grew 10% year-over-year and came in flat sequentially. Channel revenues were up 6% versus the prior year and down 17% quarter over quarter, primarily due to performance fees typically crystallizing in the fourth quarter.

Before moving on to our financial review, I'm delighted to introduce our newly appointed CFO, Tom Simeone, having had the privilege of collaborating with Tom for several years, I'm eager for our unit holders, analysts, and all stakeholders to have the opportunity to become acquainted with him. Tom?

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

Thank you, Seth. Good morning, everyone, and thank you for joining our call. During my 20 year tenure at AB, I've had the privilege of serving in various roles across the organization. This has taught me what sets AB apart. I am enthusiastic about the future that lies ahead of us and excited to share our financial results with you today. Let's delve into the details.

We continue to deliver strong financial performance in the first quarter, reflecting solid growth in asset management fees and focused expense discipline. First quarter adjusted earnings of \$0.80 per unit were up 10% versus prior year, benefiting from strong markets early in the quarter, sustained organic growth, a durable fee rate, and solid margin expansion.

Distributions and EPU grew uniformly as we distribute 100% of our adjusted earnings to unit holders. On slide 10, we show our adjusted results which remove the effect of certain items not considered part of our core operating business.

For a reconciliation of GAAP and adjusted financials, please refer to our presentation appendix or our 10-Q. First quarter net revenues of \$838 million were down 5% versus the prior year and up 6% on a like-for-like basis, excluding Bernstein research.

First quarter base fees increased 8% versus prior year in line with the growth in our firmwide average AUM. Performance fees of \$39 million increased by \$12 million from prior year reflecting sustained alpha generation from our international small cap and middle market lending strategies.

Dividend and interest revenue, net of broker-dealer related interest expense declined versus prior year, which reflects lower cash and margin balances within private wealth. In the first quarter, we had an \$11 million loss as compared to a gain in the prior year period related to our seed-like capital and other investments.

Moving to expenses, our first quarter total operating expenses of \$555 million declined 10% year-over-year reflecting the deconsolidation of Bernstein Research, as well as lower occupancy costs from our New York office relocation and a lower compensation ratio.

Total compensation benefits expenses of \$414 million declined by 6% versus the prior year in absolute terms. This reflects a 48.5% compensation ratio of adjusted net revenues in line with our guidance and below the 49% ratio in the prior year period.

We will continue to accrue at a 48.5% compensation to revenue ratio in the second-quarter of 2025, but we are mindful of market volatility and may adjust in the second half of the year, depending on conditions. Promotion and servicing costs decreased by 36% from the prior year, primarily reflecting the significant reduction of trade execution and clearance expenses from Bernstein Research in addition to lower marketing expenses.

G&A declined 13% versus the prior year period, primarily driven by occupancy savings from our New York City office relocation, coupled with lower professional fee and portfolio servicing costs. The first quarter run rate of our non-compensation expenses is tracking better than our guidance as we are exercising expense discipline in the face of a deteriorating market backdrop underscoring our improved operational flexibility.

We maintain our guidance of \$600 million to \$625 million of full year 2025 non-compensation expenses, but we will continue to exercise expense discipline given volatile markets. As a reminder, promotion and servicing makes up roughly 20% to 25% of non-com expenses, and G&A accounts for 75% to 80%, excluding one-time items.

First quarter interest on borrowings decreased by \$10 million versus the prior year due to a lower cost of debt and lower debt balances. Please note that we intend to increase leverage during the year to fund our commitment to the Ruby Re sidecar and take advantage of any other potential growth opportunities that may arise.

ABLP's effective tax rate was 6.2% in the first quarter, in line with our full year guidance of 6% to 7%. Transitioning to slide 11, let's take a look at the trajectory of our firmwide base fee rate, which is net of distribution expenses.

In the first quarter, our firm wide fee rate stood at 39.5 basis points, slightly higher versus the first quarter of 2024, supported by AUM shifts between asset classes and channels. Looking forward, I would note that we may see less support from mix shift given market movements in March and April, which could put downward pressure on the fee rate.

This dynamic was somewhat evident in the first quarter as the decline in fee rate from the fourth quarter of 2024 was primarily attributed to the adverse effects of the downturn in equity markets during the latter part of the quarter.

The decrease was particularly influenced by the drawdown in US equities which constitute approximately three quarters of our total equity assets. Although non-US equities performed better, their smaller share of our asset allocation only partially mitigated the overall negative impact on the fee rate.

In contrast, fixed income markets outperformed equities in the first quarter of 2025. While this provided diversification benefits to our assets under management and revenues, our fixed income strategies typically command lower fees, particularly for our institutional side.

While our fee rate will remain mixed dependent, we have managed to deliver a durable fee rate over time as our regional sales mix and selective growth initiatives have mitigated some of the fee erosion witnessed across the industry.

Slides will provides a detailed breakdown of our performance fees by private and public strategies. Performance related fees from our private alternative strategies totaled \$20 million during the first quarter. On the public front, our international small cap strategy, which has consistently outperformed the benchmark over the one, three, five and 10 year periods, yielded \$19 million in performance fees.

Although public alpha is volatile and more difficult to predict, our public strategies enhance our market leverage profile and provide additional upside tied to the public markets. As a result, we're revising our annual performance fee expectations to \$90 million to \$105 million up from the prior projection of \$70 million to \$75 million.

For the remainder of the year, we expect our private alternative strategies to be the primary contributors to our performance fees as they have been in recent years. These strategies include commercial real estate debt.

AB CarVal and AB Private Credit Investors or AB PCI, which is the largest contributor. Although certain strategies exhibit greater volatility than others, we anticipate an additional \$50 million to \$60 million of hurdle-based performance fees for the remainder of 2025.

It is important to highlight that our estimate factors in a lower interest rate environment. However, the wide range of rate cut projections obscures our visibility on the potential impact from such cuts. Turning to slide 13, we saw solid margin expansion during the first quarter of 2025.

The adjusted operating margin reached 33.7% up 340 basis points versus the first quarter of 2024, demonstrating our improved operating leverage following the completion of both the Bernstein Research JV and the move to Hudson Yards.

Our forecast for a 33% margin for 2025 assumed flat markets from year-end 2024 levels. If the recent market weakness continues, it could put downward pressure on future margins, although we will also actively manage expenses.

While we are keenly focused on margins, we are also committed to investing in growth and generating long-term value for our unit holders. As part of our strategic planning, we have allocated resources for targeted growth investments such as onboarding new investment teams and introducing new products with the expectation that these endeavors will yield enhanced returns over time.

Before we move on to the Q&A session, I want to extend my heartfelt appreciation to all my colleagues throughout our organization for their unwavering dedication.

It is a privilege to assume the CFO role, and I am eager to contribute to our collective success and create value for our clients, our unit holders, our colleagues, and all our stakeholders. With that, we're pleased to answer your questions, operator.

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## QUESTIONS AND ANSWERS

### Operator

We will now begin the question-and-answer session. (Operator Instructions)

Alex Blostein, Goldman Sachs.

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### Alexander Blostein - Goldman Sachs - Analyst

Hi, good morning. Thank you. And Tom, welcome to the call. Question to you guys starting maybe with the asset allocation trends you guys have seen so far in the second quarter. Obviously super volatile backdrop, lots of uncertainty. It seems like the retail channels starting to look a little bit softer, including on the fixed income side, which has been historically a source of strength for you guys.

So how do you expect, the retail channel, I guess, to behave, as we kind of deal with the current backdrop and. Seth, curious in particular, when it comes to non-US retail, given your distribution footprint there how that channel is performing and the outlook there? Thanks.

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

Sure. Hi, Alex, Onur here. I'll take the question. In terms of -- I'll start with that asset allocation, then switch to non-US retail. What we are seeing is that driven by largely what's happening with the treasuries and the rates, obviously the continued Fed. Uncertainty with the rate cuts as well as the tariff policy uncertainty is creating some confusion in the market.

As a result, we have seen, starting in Q1, some outflows out of retail, taxable fixed income, particularly in the overseas markets, our flagships like Hong Kong, Taiwan. This is not a first time or a new thing. We have seen this trend in the past. There were times like COVID or 2022. When the rate cuts happen, when the shape of the yield curve gets solidified with the steeper yield curve, our strategies go back to strong inflows.

So as a result, although this current volatility is not going to help in the very short term, we believe it will continue to support us in the long term. And as you recall, when there was an asset rebalancing into taxable fixed income, we were one of the first beneficiaries of that and gathered close to \$35 billion of net flows from taxable fixed income, so definitely it will help us in the long term while it might partially hurt us along with others in the short term.

However, balancing some of that is the strength of our tax exempt franchise in the US, as well as our growing ETF franchise, which obviously caters to a slightly different audience with the active ETFs being 100% US today. So overall we continue to see relative strength in our US business and enhance overall. We believe that to be confident about the long term prospects for taxable and tax exempt fixed income.

In terms of the non-US geographies, I already touched on the fixed income. I'm not going to belabor further into that. In terms of equity, as we run the largest active equity strategy in Japan, and that strategy delivered very strong flows in first quarter.

We continue to monitor what's happening not only with the equity markets but also with the dollar yen dynamics. However, even if the second quarter might be a little bit softer with the equity market and affects volatility, the structural trend in Japan is the growth of the retirement market with the NISA accounts and we play well into that retirement money which tends to be stickier, more long term oriented, less short term, and we expect to have strong kind of growth in our Japan franchise leveraging that retirement trend.

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

Alex, I just add that. As I said in my earlier comments, we believe the fixed income thesis remains intact despite what has been remarkable volatility. And when you look at sort of yields of 8% out there and they could get higher for sure. But they look pretty good relative to any kind of long term expectations of equity returns right now, and I think risk aversion will probably remain present for a while and so I think once the stability begins to reassert itself, I think that's there's pretty attractive opportunities out there for people who don't want to venture back into equities so quickly.

But that will take some more time to figure out. But it's also worth noting that our own retail flows have certainly stabilized in recent days, at a better level. So, look, we are monitoring it just like everyone else is and can't predict the future, but, I like the mix of businesses we have and our emphasis on fixed income in a time like this.

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**Alexander Blostein** - *Goldman Sachs - Analyst*

Yeah, I agree with you there. Thanks. A good great detail, for my follow up question, I just wanted to ask you guys around the equitable dynamics and now with the tender results, known, and participation was relatively limited, and I was curious if you could expand on maybe some of the structural benefits to equitable, from having AllianceBernstein as a public company. Do you ultimately see the willing to acquire more over time or kind of how do you think that relationship plays out over the next several years?

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

Thanks, Alex. Well, the first thing I'd say is you all cover equitable and you should certainly ask them the question yourself. We took it, I take it as a vote of confidence in this business that they had decided to make such an endeavor to increase their holdings in AB in the manner that they did. I think the premium clearly didn't convince a ton of people to go to tender into it, and I think a part of that is the very high distribution yield we offer remains pretty attractive, particularly in times like this, to [unitholders] (corrected by company after the call).

And so I do think and know that equitable understands the logic of maintaining the independence of AB, frankly, for several reasons. One, our employees like the clear alignment and the recognition that a public security has for their endeavors, and we don't take that lightly from a deferred compensation perspective as well as a clear understanding of the business and its goals.

Secondly, Equitable sees this as a more attractive currency potentially as we continue to look for opportunities to supplement our product or distribution capabilities and so we want that as do they as a potential option as we've used it before, whether it was the purchase of CarVal or in other contexts.

And I guess finally I would say to you that, they get it it's a pretty tax advantageous position that they have today in their position as a private partner as well as the owner of the public units to have AB in the current status as a partnership. So, there is no change in our view in that that, and I don't believe there's a change in their view.

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**Alexander Blostein** - *Goldman Sachs - Analyst*

Right. That's super helpful. Thank you, guys.

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**Operator**

Craig Siegenthaler, Bank of America.

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**Craig Siegenthaler** - *BofA Global Research - Analyst*

Good morning, Seth and Tom. I hope everyone's doing well. I had two follow-ups to Alex's last question. The first one is EQH taking a more active role in the management of AB, which I thought was run fairly autonomously over the last 20 years across three CEOs. And then the follow up would be, are there any limits in place to prevent EQH from buying more stock in the future?

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

There has been absolutely no change in the engagement or activities of Equitable versus the operations of AllianceBernstein. We continue to operate autonomously with the independent members board with independent members.

We continue to set our own comp to revenue ratio in consultation, of course, with our board. And we intend to have that continue, so there's been absolutely no change, Craig, in that regard, and there's no change anticipated.

Additionally, equitable, there is no technical restriction that I'm aware of that that precludes equitable from potentially buying more units. And indeed, as you might have or I'm sure you recognize that when we entered into the RGA transaction, we actually funded that [investment in Ruby Re] (corrected by company after the call) through an investment equitable made in units of private units of AB to facilitate that.

We raised \$150 million to do that. I can see that ownership stake rising or falling depending on our acquisition activity, and I'd point out that it had fallen, as part of the acquisition of CarVal. So, there isn't a limitation, Craig, that I'm aware of.

**Craig Siegenthaler** - *BofA Global Research - Analyst*

Thanks, Seth. Just a follow up, your retail Muni SMA flows have been really strong. They might actually be the leading driver of organic growth at AB, but you can correct me if I'm wrong. But we, US lawmakers now are discussing the removal or even cap of the tax exemptions on Muni bond interests. So if enacted, do you see that as a headwind to flows, or do you think the secular drivers? Of Muni in the SMA wrapper are so powerful that can sort of power right through that sort of issue?

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

Look, we spend a lot of time focusing, as you might imagine, on what's going on in the reconciliation discussions in Washington and, as you know Muni deductibility has come up before. Our own view is that there won't be a repeal, and that's what we hear from people we talked to in Washington, but it isn't over until it's over, so I recognize that.

There may be areas within the high, I'm sorry, within the Muni market that might be some sort of restriction, or other ways, for example, limiting higher income individuals ability to take that deduction. But our view is that the importance that Muni financing has to states and municipalities is so critical and fundamental that we don't think that full repeal is on the table.

But obviously we're watching it carefully. To answer your question more directly, I think in the event that such a such a change happened and it was repealed, I think you would certainly see a one-time reaction to that in the repricing of the sector to accommodate it. I think that would be a likely outcome, so there would be a shock to that market that would affect flows. But ultimately Muni credit quality and credit migration is much slower, as I think, than corporate migration.

It has been a very comfortable place for people to keep a portion of their retirement savings and the need for income, if anything, is even greater than it's been before and I don't see a better substitute for it. Now it may what constitutes a Taxable Americans holdings may change to include non-municipal fixed income assets that may well happen, but, I think people are very comfortable investing in that space and it will continue to be an important part of people's retirement.

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

And also the positive is in a scenario where there are no major changes, which is probably the base case scenario.

You would expect also some increased demand because there has been some volatility with some cautious over issuance of Muni bonds in the first quarter, so there was a demand supply imbalance that created a yield outlook that is even stronger than before also relative to treasury.

So although negative. Scenarios are out there and there's definitely some risk. Also, there is an upside when the market is normalized in terms of the tax protected yield and high net worth and ultra high net worth clients kind of using it as they always did over the last decades.

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**Craig Siegenthaler** - *BofA Global Research - Analyst*

Thanks.

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**Operator**

Bill Katz, TD Cowen.

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**Bill Katz** - TD Cowen - Analyst

Okay, thank you very much, and Tom, congratulations on the new role. Maybe start with on the expense side, I think if I heard you correctly, no change to the prior guide on non-com of \$600 million to \$625 million. So is the first quarter just some delay of spend and that that might accelerate into the back half of the year, or what kind of flex would you have if the revenue backdrop were not to play out against your base assumptions?

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

Yeah, Bill, this is Tom. Thank you. You have it right there. The \$600 million and \$625 million, we're going to remain sticking to that guide for now, but Q1 is a bit lower. We do see some spend increasing throughout the remainder of the year and based on that, if you annualize Q1, you'll see that we do have some flex, so we do have some levers that we can pull if we need to reduce expenses during the year.

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

Look, if we don't see that base case roll forward. We're going to need to take a more cautious route in spending.

**Bill Katz** - TD Cowen - Analyst

Right. Yeah, for sure. Thank you. And then maybe a big picture question, doing very well on the Alts side. I think we're going to pack that a little bit. What's the allocation in the private wealth side now to all? How much further do you think you have to sort of take that? I think last recollection is something around 10%, but just correct me on that.

And then maybe you can unpack a little bit about some of the success factors you're having on the third party side, and which products you're seeing the most traction and where you see the greatest incremental distribution connectivity? Thank you.

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

Sure, yeah, your, recollection is right, we tend to have, around 10% allocation, in the client portfolios today if you look at our overall AUM, particularly for certain client segments like ultra network clients, obviously family offices that target allocation is much greater, 20% or above, so there's definitely, more upside and hence we have a pretty robust product pipeline.

Not only to drive allocations from existing clients but also use new products to acquire new clients. I mean, actually, if you look at our first quarter, if I were to quote the net new assets, which is different than net flows, so if you were to look at it like a wealth manager. Our annualized organic growth rate was 6.5% on a net new asset basis.

So as a result, as the net new asset growth materializes, that will benefit the alternatives at the current rate, at least 10% and with also ultra high net worth and family offices and even at a greater rate in terms of the demand, it's broad based obviously private credit is a big part of the story, but also for our private wealth business we onboard best in class managers that are additive in other adjacent asset classes whether it's in real estate equity, venture capital, et cetera.

So it's going to be relatively broad based in our private wealth channel, but the trends in private credit, the strategies we offer, whether it's middle market lending, whether it's the CarVal strategies, the demands stay strong in the first quarter and expected to remain [strong] (corrected by company after the call) for the rest of the year.

In terms of other channels and where we are seeing the demand and broadening, insurance definitely has been an uptake, as we've been focusing on building on insurance capabilities globally, leveraging some of the Equitable synergy.

Equitable is now \$13 billion, almost \$13.5 billion into their \$20 billion. Overall commitments and that helps us broaden the strategies we offer, for instance, the new private placement ABS that we added in the fourth quarter of '24 already is contributing to our flows. Resi mortgage platform is broadening, out of CarVal, so there are a lot of bright spots and we started to see an increased pool from third party channels, including third party insurers into our middle market lending strategy as we create different leverage levels for the product and insurers typically prefer lower leverage versions of the product.

So we are definitely broadening the client base for direct lending in the insurance channel. So I expect the insurance to be a very strong contributor to our alternative growth in private credit across core direct lending, real estate debt, as well as specialty finance and hard assets from CarVal.

On the retail side, our interval fund and the BDC kind of product are in in the markets, our focus in the US has been the interval funds, given the broad appeal and ease of deploying that strategy, the minimums are low. It's a 40-ACT product. So and the subducts and the whole client experience is much smoother than some of the more complex solutions.

We are approaching several \$100 million in that product already at the 12 month mark, which is in line with our plans and hitting that threshold allows us to have broader conversations with larger broker dealers and warehouses, and we expect to onboard a large broker dealer in that strategy this quarter while seeing also continued demands from the RIA.

And in terms of product extensions or products that are getting interest in the overseas markets. There's definitely interest in non-correlated assets. Some of the asset-based finance is definitely interesting to our clients seeing strong demand, as well as our aviation income, which is a little niche but definitely seen as a less correlated product from the client base.

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**Bill Katz** - TD Cowen - Analyst

Thank you very much for that.

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**Operator**

Ben Budish, Barclays.

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**Benjamin Budish** - Barclays - Analyst

Hi, good morning, and thanks for taking the question. I wanted to check on your private markets fee expectation, I guess first, Tom, it sounds like you indicated that the expectation for this year was a guide up. When I was looking at the transcript from the last call, I think the commentary was \$70 million to \$75 million of recurring hurdle-based performance fees.

I just want to make sure I have the right sort of apples to apples comparison. And then the other piece I was curious about, in the slides you indicate that ABPCI is the majority of private markets performance fees. Curious, could you remind us what were the other big pieces in '23 and '24 that drove higher private markets fees and is there potential for that to recur if conditions are correct, or do you feel pretty good about the sort of \$70 million to \$80 million full year that you're looking at for '25?

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

So, the other performance fees in 2024 were CarVal, PCI, and real estate. Is that what you're getting at there? Are you trying to understand the difference between '24 and projected '25?

**Benjamin Budish** - *Barclays - Analyst*

Yeah, just the commentary. So the -- or sorry, it's the commentary for '25 for what you gave last quarter versus what you're saying today. So how does the \$70 million to \$75 million compared to what you're saying today of \$90 million to \$105 million? Like I assume the prior would not have included public markets, but.

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

Yeah, we had some international SMID that resulted in about \$19 million to \$20 million of performance fees in Q1, and that's why, that's what's leading to the revision upward. So the public markets forecast hasn't changed. The private markets forecast has not changed. But what increased it overall is because we had some public performance fees in Q1.

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**Benjamin Budish** - *Barclays - Analyst*

That would okay, that's helpful. And then maybe a broader question on private markets, you talked a little bit about investment grade, private credit. It's a huge theme we hear about from some of the other alternative managers. Just curious, how much of your private markets activity today is investment grade and when you talk about sort of expanding to other third party insurance partners or other LPs sort of or even other, wealth clients sort of outside your current your wealth business, how much, how important is investment grade as part of that strategy? Thank you.

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

Yeah, it's primarily an insurance story when it comes to private wealth or third party retail, even the larger parts of the institutional markets, typically IG is not the dominant strategy, although it might be appealing in certain jurisdictions like Japan, et cetera. Where they might be looking for some diversification from fixed income but not the full risk exposure to the wider credit markets.

Within insurance, definitely it's the highest growth part of our market. That's why we've been expanding our IG capabilities significantly either through team extensions as well as additional leadership talents. I mean that was one of the reasons why we brought Geoff Cornell from a large insurance company who was the CIO there to lead our insurance efforts that was back in May '24.

As you might recall, and that has been a large part of our growth. In terms of specific percentages, I don't have it offhand, but again in terms of net flows into private credit in insurance, IG has been the disproportionate amount and I will expect it to remain that way.

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**Benjamin Budish** - *Barclays - Analyst*

All right, thank you very much, very helpful.

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**Operator**

Dan Fannon, Jefferies.

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**Daniel Fannon** - *Jefferies - Analyst*

Thanks. Good morning. Just wanted to one more clarification on the performance fee outlook is the public markets numbers, this is just being conservative where you're assuming no performance fees because the performance is yet to be crystallized, or is there a start of the year? Can you give us an update maybe on how those strategies are looking to give us a sense of what that might actually come to?

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

That's exactly right. The public markets, we don't forecast generally because they need to be crystallized.

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**Daniel Fannon** - Jefferies - Analyst

Understood. And then just a follow up on advisor productivity and just within the private wealth you talked about that improving. Can you talk about the mix of new advisors versus existing advisors and whether the newer ones coming on board that you're actively recruiting more aggressively are the ones that are more productive or it's more broad based.

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

It's more broad based our strength in the private wealth channel has been the retention of our most tenured than and most productive advisors. We have, I think above industry retention rates, and that has been a very strong contributor to productivity.

And when we recruit, as our recruiting makes tend to skew towards younger advisors where we train. And developing our own model, although we are adding more experienced advisors at a slow rate consciously, right now the recruiting mix remains heavily skewed towards younger advisors that we mold into our model. But there's definitely some upside from adding more experienced advisors over time, and we have a dedicated team effort to accelerate that in the coming quarters.

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**Operator**

Thank you. (Operator Instructions)

Bill Katz, TD Cowen.

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**Bill Katz** - TD Cowen - Analyst

Thanks. I just appreciate the follow up. A couple of sort of modeling it's just tracking to. Tom, just to follow up on the public side of performance fees, is there a way to give us a sense of either AUM they're eligible for performance fees and or how those relative funds, those funds are doing either relative or absolute return at the end of the Q1 versus maybe 12/31 as we think through sort of the incremental upside?

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

I think you're asking about the private side there, Bill, and those are very predictable. And those are recurring and consistent. So that --

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**Bill Katz** - TD Cowen - Analyst

I understand. Yeah, I'm sorry to interrupt. No, it's more on the public side. I'm just trying to get a sense of what how to think through the upside to that \$0 million to \$5 million guide on page 12 of the slide deck. Think about just how is absolute relative performance sitting at 3/31 versus 12/31 or are there any high water mark issues that we have to sort of contemplate.

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

Yeah, with the volatility in the market, it's hard to respond to that one right now from both an interest perspective and then just the equity markets and what they're doing.

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**Bill Katz** - TD Cowen - Analyst

Okay, and just you've mentioned in your commentary that there could be some pressure on the base fee rate given the market backdrop, if that makes sense. Is there a way you could give us what the exit fee rate was on the base fee rate at 3/31 maybe versus the average for the quarter at the prior actual number?

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

You know what else I have in front of me -- and I'm sorry, but is the fee rate for the quarter of 39.5 basis points.

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**Bill Katz** - TD Cowen - Analyst

Okay, thank you very much.

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**Operator**

John Dunn, Evercore ISI.

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**John Dunn** - Evercore ISI - Analyst

Thank you. Maybe the pipeline being up is great. Can you just maybe give us a little more flavor of the temperature of different parts of the institutional side of the business and also maybe kind of look geographically if there's any, different appetite for risk in different regions.

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

Yeah, sure. We feel very good about the continued strength in the pipeline. There's been definitely very strong, kind of upside from particularly fixed income insurance, as I mentioned earlier, was a big contributor, but we also had increased allocation to our systematic fixed income capabilities, which we launched relatively recently in the last several years, and it's great to see that that's opening a new type of opportunities for us and we onboarded there in terms of the pipeline.

We added a significant international client, a European client to that strategy, so feeling good about the momentum there. In terms of other areas of pockets of strength, I mean, definitely the demand for asset-based finance is strong across different geographies. I'm talking at this point more pre-pipeline, but definitely in terms if I look at the client conversations, what comes to the CRM, definitely you would see a lot of asset-based finance type conversations, that is there.

When it comes to equities, equities have been somewhat concentrated in the more under-allocated areas, whether it's emerging markets, whether it's value strategies, whether it's the small mid-gap, right, because it has been very dominated. In the last several years with the large GAAP with the Mega 7, et cetera.

So, those are the areas that we've seen more, increased clients, interest, if you will.

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**John Dunn** - Evercore ISI - Analyst

Got it. And then, US growth equities in Japan, so distributed in Japan have been a nice tail for you guys. Are you seeing any kind of early signals of non-US investors avoiding the US (technical difficulty)

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

Sorry, the last part of your question got muffled. Can you repeat the last part of your question, please?

**John Dunn** - *Evercore ISI - Analyst*

(technical difficulty) Japanese or other non-US investors avoiding investing in US stocks?

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

No, we have not seen that broad trend. My guess is going to be a reaction more country by country. Definitely we have not seen any major impacts in our core geographies like Japan. Obviously we need to monitor what happens over time and maybe there could be some reaction to US exceptionalism, but so far looking at the activity. Since the liberation day, we have not picked up anything dominant.

**John Dunn** - *Evercore ISI - Analyst*

Thank you.

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

Hey, Bill, this is Tom. Let me just get back to you on that one thing. While we don't look at the exit fee rate, I will say the 39.5 basis points that we experienced for Q1 that ticked down a little bit in the later half of the quarter. So if that helps you in any way there.

**Operator**

That concludes the conference call. You may now disconnect.

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