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PRESENTATION

Operator

Thank you for standing by, and welcome to the AllianceBernstein First Quarter 2021 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.

And 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, operator. Good morning, everyone, and welcome to our first quarter 2024 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.

With us today to discuss the company's results for the quarter are Seth Bernstein, President and CEO; Jackie Marks, CFO; and Mark Gessner, Head of U.S. Retail. Onur Erzan, Head of Global Client Group & 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'd like to point out the safe harbor language on Slide 2 of our presentation. You can also find our safe harbor language in the MD&A of our 10-Q, which we filed yesterday. 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 the call over to Seth.

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

Good morning, and thank you for joining us today. In the first quarter, AB benefited from strong global equity market returns, complemented by robust double-digit organic fixed income flows and 8% annualized growth in alternatives and multi-asset, more than offsetting equity outflows. AB's balance and diversification across asset classes and geographies coupled with broad global distribution capabilities enabled us to continue to drive market share gains in key areas.

Retail led the way, driven by municipal SMA and strong cross-broader fixed income flows. On April 1, we closed the Bernstein Research joint venture with Societe Generale, improving our future profit margin profile while using the proceeds of $304 million to pay down debt before quarter end, providing flexibility to invest in the future.

Now let's get into the specifics, starting with a firm-wide overview on Slide 4. First quarter gross sales were $32.6 billion, up $7 billion or 27% from the year ago period. Firm-wide active net inflows were $3.7 billion or 2.3% organic growth. Quarter end assets under management of $759 billion increased by 12% year-over-year and 5% from the end of the fourth quarter, and first quarter average assets under management were up 11% year-over-year and 8% sequentially.

Slide 5 shows our quarterly flow trend by channel. Firmwide first quarter net inflows were $500 million. Strong retail gross sales of $23.8 billion increased 42% year-over-year and 13% sequentially, driven by both fixed income and equities.

Net inflows were $4.2 billion or 6% annualized organic as we continued to gain share in fixed income, up 23% annualized organically. Our institutional channel had gross sales of $3.3 billion, up 12% from both prior periods. Net outflows of $4.2 billion included a $3 billion low fee passive partial redemption. In Private Wealth, gross sales were strong at $5.5 billion, with net inflows of $500 million, led by munis, our proprietary direct indexing fund, and ETFs.

Investment performance is shown on Slide 6. Starting with fixed income. Government bond returns ended the first quarter flat while most credit risk assets outperformed in the quarter. Government bond returns reflected volatility associated with the magnitude and timing for when central banks would begin to cut rates, falling early in the quarter and subsequently rallying in mid-March when those views began to change.

Meanwhile, Corporates came to market with record new issuance and investors locked in higher yields. AB's fixed income performance remained strong, with 91% of assets outperforming over the 1 year period and 71% over both 3 and 5 year periods. This performance translated to double-digit annualized organic growth across our fixed income asset base this quarter, including some standout performances in retail.

Turning to equities. Global equity markets posted strong quarterly returns with the S&P 500 up 10.6%, reflecting a resilient U.S. economy, ongoing enthusiasm around artificial intelligence, and a widely held outlook for monetary easing, albeit at a slower pace than initially expected. We were encouraged by evidence of a more fundamentally-driven environment, as exemplified by some dispersion in performance amidst the Magnificent 7.

Our investment performance showed steady improvement as several large AUM strategies outperformed benchmarks in the first quarter. 40% of equity assets outperformed over the 1-year period, while 50% outperformed over both the 3 and 5 year periods. We continue to experience outflows in equities. Client rebalancing within their allocations, a shift to fixed income products given the higher rate environment, and specific strategies in which underperformance led to redemptions contributed to negative flows in the quarter.

That said, we received an upgrade from a global consultancy for U.S. sustainable thematic, an example that the strong long-term performance is being recognized. We're seeing some signs of renewed interest in U.S. value, for which we have several competitive strategies, as exemplified by fundings of the $330 million SMid-cap value mandate during the quarter. Relative to peers, 54%, 71% and 68% of our equity assets outperformed the Morningstar peer group over the 1, 3, and 5 year periods, respectively.

Now I'll review our client channels, beginning with retail on Slide 7. Gross sales and net inflows both reached the highest level in 9 quarters, approaching record 2021 levels. The redemption rate improved sequentially to 27% from 30% while ticking up slightly versus prior year. Net inflows of $4.2 billion reflected strong geographic breadth and demand for income from Asian investors despite resurgent rates volatility in the quarter.

In taxable fixed income, we grew organically at a 25% annualized rate with net inflows of $4 billion, marking the highest quarterly gain since 2019. Sustained inflows into American income and money markets were supplemented by client reengagement in global high yield.

Munis posted record net inflows of $2.3 billion, 28% annualized organic growth rate. Active equity outflows reflected sequential improvement as redemption subsided while performance rebounded. U.S. large cap growth posted net inflows in both Japan and the United States. You'll hear today from Mark Gessner, our Head of U.S. Retail, who will walk you through our remarkable progress and growth outlook in the U.S. retail channel.

Turning to Institutional on Slide 8. First quarter gross sales were $3.3 billion, up 12% versus prior periods. Outflows of $4.2 billion were concentrated in equities, including a $3 billion low-fee passive equity partial redemption. Flows were bolstered by AB CarVal, which saw a $780 million CLO and $315 million in residential mortgages, the latter funded by Equitable. Alternative multi-asset flows are now positive for 13 of the last 16 quarters, representing 35% of our channel AUM, up from 21% 3 years ago. Alt and multi-asset has grown at a 20% CAGR, lifting our channel fee rate by 13% over this period. The AB CarVal acquisition is reflected during this period.

Our pipeline was $11.5 billion at quarter end, down $500 million sequentially. First quarter fundings included $330 million in U.S. SMID value and $135 million in us U.S. Low Vol. Notable pipeline additions include $500 million for AB Private credit investors' new NAV lending strategy funded by Equitable and $500 million for systematic U.S. investment grade. Equitable's initial $10 billion private markets program is now over 95% deployed and we expect it will be completed in the first half of this year. The second $10 billion is expected to commence thereafter and extend over the next few years.

Moving to Private Wealth on Slide 9. First quarter gross sales of $5.5 billion resulted in net inflows of $500 million. We posted strong sales in our Proprietary Direct Indexing Strategy, now $4.6 billion in AUM, municipals and ETFs. Advisor productivity remains solid, and we continue to invest with FA headcount on track for mid-single-digit growth in 2024, including internal promotions, a key part of our strategy. We have a diverse slate of private alternatives launches slated to ramp beginning in the second quarter, including our Evergreen Strategies, 2 AB CarVal strategies, and select external partners.

I'll finish with our business overview with the sell side on Slide 10. With the close of the joint venture on April 1, this is the last time we'll be reporting separately on Bernstein Research. First quarter Bernstein Research revenues of $96 million were down 4% over both prior periods. We saw modest improvement in Asia, though global trading activity remained subdued. The close of the joint venture was Bittersweet, the culmination of a great deal of time and effort expended by our many talented colleagues.

We're proud of Bernstein's high-quality global research effort built over the years, and we are excited for Bernstein's future under Societe Generale's majority ownership with the opportunity to leverage SocGen's experience in equity capital markets, derivatives and prime brokerage. Jackie will walk through the specifics on modeling for the financial impact shortly, which is summarized on the accompanying slide.

I'll conclude by reviewing the status of our strategic initiatives on Slide 11. Performance in fixed income was strong for all periods while equities improved steadily, though much progress remains. We grew organically, driven by 2% active organic growth, led by retail, which posted outstanding 25% plus annualized growth in both taxable and municipal fixed income.

We continue to grow through differentiated products, including our ETFs, now up to $2.6 billion in AUM; private markets at $63 billion, up 9% year-over-year; and tax-efficient offerings, including municipals. First quarter adjusted operating income rose 12% year-over-year, operating margin exceeded 30%, up 160 basis points, and earnings and unitholder distributions of $0.73 per unit were up 11%.

Now I'm pleased to turn the call over to Mark Gessner to discuss the growth in our U.S. retail platform. Mark?

Mark Gessner ***AllianceBernstein Holding L.P. - Head of US Retail***

Thanks, Seth, and good morning, everyone. I'm excited to discuss with you our U.S. retail platform and its growth strategy. AB is well positioned for growth in the U.S. Retail channel. We have a strong track record of success through market cycles. We have increased our access to large asset pools and distribution partners, while continually evolving vehicle types to meet the changing needs of investors and their advisors, and we are operating from a position of strength, allowing us to invest in growth to meet the market's future needs.

Turning to Slide 14. Over the last 7 years, our U.S. Retail platform has a demonstrated track record of consistent market share gains. As shown on the left-hand side, sales have grown at a 15% compound annual growth rate. AUM, shown on the right -hand side, has grown at 12% compound annual growth rate.

We have generated 7 straight years of organic growth, averaging 6% over this period, taking market share cumulatively, adding $31 billion in net flows over the period. In fact, net flows have added more to AUM than market performance. Organic growth has been driven primarily through vehicle diversification, with SMAs and CITs now accounting for nearly half of AUM versus the quarter 7 years ago.

Turning to Slide 15. We enjoy deep established relationships with key distributors, allowing us to take advantage of this large and growing market. U.S. retail represents a larger pool of assets than any other region in aggregate. Most key channels have experienced high single to low double-digit growth rates.

On the right, we highlighted examples of significant relationships across various channels. Our largest wirehouse clients have grown at double-digit growth rates over this time period. Likewise, we are seeing very strong growth from a national broker-dealer at 25% and a leading independent broker-dealer at 23%. In the RIA space, we have a strong growth with a hybrid RIA relationship among many others.

One consistent theme is that we're growing AUM faster than the channel has grown. Importantly, AB has a strong and growing brand that we can leverage. For example, we were delighted to win the Citywire Pro Buyer Service Award for asset management service awarded by RIAs in multifamily office. This recognition highlights the inroads we've made with some of the key decision-makers in faster-growing channels.

That leads into Slide 16, which highlights the increased productivity of our sales professionals have experienced in the Financial Advisor community. Sales professional productivity has improved by 70% in the last 5 years, driven by increasing the product footprint at key distribution partners, targeting geographic growth to align with market opportunity, and investing in technology infrastructure to better inform our sales professionals on opportunities with targeted clients. As shown on the right, we've grown the number of Financial Advisors with sales exceeding $1 million by 39% and compounded that growth through increasing the average sales per advisor by 32%.

Turning to Slide 17. Our focus has been to develop vehicles that meet investors and their advisors where their needs are, resulting in accelerated growth. In SMAs, our overall AUM has grown at a 24% compound annual growth rate. Looking forward, we feel we are well positioned to continue to out-index the category growth rate of 14%. As an example, year-to-date through March, our U.S. Retail muni platform has seen $2.3 billion in net flows. We have opened approximately 2,400 new SMA accounts this year. while more nascent, our retail CITs and ETFs provide tailwinds in our business that allow us continued growth in excess of market forecasts.

Now, turning to the future and why we think we can maintain our robust growth on Slide 18. We are executing a 3-pronged growth strategy. First, accelerating growth in SMAs, which we still think is in the early innings as we expect robust growth over the next decade as clients and advisors demand personalized and tax-efficient investment solutions.

We plan to capitalize on our differentiated industry-leading capabilities by launching highly differentiated products that deliver innovative tax benefits. This includes a fully integrated AB Balanced Direct Index solution with tax-managed equities in municipal bonds, active equity and balanced products with research-driven tax overlays and a suite of taxable bond SMAs. Focused growth on our municipal SMA platform where our customized solutions enjoy broad distribution approval and industry-leading technology and performance and the evolution of top-tier client experience and SMA platform scalability through tools enabling elevated tax transition prospecting, customized advisor and client reporting and portfolio transparency.

Secondly, in active ETFs, we continue to launch complementary solutions, new innovative concepts and expand our reach. We were pleased that our AB disruptors ETF took home the best new Active ETF award at the 2024 etf.com awards, beating out some formidable competitors. AB Disruptors ETF employs a thematic approach to identify innovative disruptors across AI and cloud infrastructure, energy transition, medical innovation, digital transactions, and media and industrial.

And in private alternatives, we will leverage our distribution advantages, including deep established relationships with the home offices of the largest platforms, strong field coverage of advisors, brand awareness and education and training. With the addition of AB CarVal, the breadth of our private alternatives capabilities now span many areas of private credit and of course, include U.S. and European cred, along with ABPCI, our middle market lending business.

On Slide 19, we show how we are laying the foundation for future growth. Over time, we have shifted our mix towards sales specialists who now account for 1/3 of our sales force, successfully augmenting our talented teams with outside talent where needed. These specialists span both product with a focus on ETFs and private alternatives as well as client segment, both RIA and defined contribution.

We have made significant investments in technology and data infrastructure with our new leading-edge proprietary sales enablement tool, Oculus.

Oculus integrates 15 third-party data sources, 12 third-party technologies and internal transaction detail to improve sales professional productivity by enhanced advisor targeting. We are pleased with its rapid adoption and effectiveness.

In summary, we're excited to continue to deliver on our proven growth capabilities in U.S. retail with a strategy that leverages strengths and expands our capabilities for investment in distribution capacity.

Now I'm pleased to turn it over to Jackie, who will walk through the financials. Jackie?

Jacqueline Marks *AllianceBernstein L.P. - CFO*

Thanks, Mark. Let's start with the GAAP income statement on Slide 21. First quarter GAAP net revenues of $1.1 billion increased 8% from the prior year period. Operating income of $242 million increased 12% and operating margin of 21.2% increased by 110 basis points. GAAP EPU of $0.67 in the quarter increased by 14% year-over-year.

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

Our adjusted financial highlights are shown on Slide 22, which I'll touch on as we talk through the P&L shown on Slide 23. On 23, beginning with revenues. Net revenues of $884 million increased 6% versus the prior year period. First quarter base fees increased by 8% versus the prior year period as 11% higher average AUM was offset by a lower fee rate. The first quarter fee rate of 39.3 basis points decreased 2% year-over-year, driven primarily by mix, reflecting organic growth in lower fee rate products, including munis and money markets.

We expect the fee rate trajectory will continue to reflect the mix of organic growth combined with market movements. First quarter performance fees of $27 million decreased by $6 million from prior year period, primarily due to lower fees from international small cap. We now see full year 2024 performance fees in line with 2023 levels.

First quarter revenues for Bernstein Research Services of $96 million declined 4% from the prior year period. As Seth mentioned, we were pleased to close on the Bernstein Research JV on April 1, 2024, which I'll take a few minutes to discuss. Beginning in the second quarter, we will deconsolidate all revenues and expenses from the Bernstein Research business.

We expect the deconsolidation will increase our adjusted operating margins by 200 basis points to 250 basis points on an annualized basis. Our equity interest in the net income of the JV will be reflected in the investment gains and losses line of our revenue and will be slightly dilutive to GAAP earnings.

As this business is no longer a core operation, any gains or losses will be added back to adjusted earnings. Prior to first quarter close, we received an equalization payment of $304 million, which we used to reduce our debt, for which the average interest rate in the quarter was 5.3%. Including the benefit of lower interest expense, we anticipate the JV will be slightly accretive to adjusted EPU. First quarter dividend and interest revenues net of broker-dealer interest expense was essentially flat.

Now moving to adjusted expenses. All in, our total first quarter operating expenses of $617 million were up 4% year-over-year. First quarter total compensation and benefits expense was up 5% versus the prior year period, driven by a 6% increase in revenues, offset by slightly lower compensation ratio of 49% of adjusted net revenues as compared with 49.5% in the prior year period.

U.S. and global equity markets continued their gains in the first quarter, so April has been more volatile. It is still early in the year, and we are balancing market growth with continued strategic investments. Given market conditions, we plan to accrue at 49.0% compensation ratio in the second quarter of 2024 as compared with last year's second quarter level of 49.5%, and we may adjust further throughout the year.

We note that the Bernstein Research business had a compensation ratio only modestly above the corporate average. Promotion and servicing costs increased by 12% from the prior year period as growth in the U.S. retail business combined with higher markets led to higher mutual fund transfer fees. T&E expenses also increased commensurate with business growth.

We expect second quarter promotion and servicing expenses to decline by approximately 28% to 30% on a year-over-year basis, reflecting the April 1 deconsolidation of the Bernstein Research Services business, which will significantly reduce trade execution and clearance expenses. For the calendar year 2024, we expect promotion and servicing expenses to decline by approximately 20% on a year-over-year basis.

G&A expenses declined by 3% in the first quarter versus the prior year period. The quarter benefited from recognition of a one-time $20.8 million grant in the State of Tennessee related to the Nashville relocation. This was partially offset by $6 million of additional quarterly rent expense, primarily driven by the new Hudson Yards location as well as higher market data expenses and adverse FX translation. We expect G&A expenses in the second quarter and full year 2024 to decline by mid-to-high single digits year-over-year, reflecting the Bernstein deconsolidation.

First quarter adjusted operating income of $267 million increased by 12% versus the prior year period. First quarter adjusted operating margin of 30.3% increased by 160 basis points year-over-year. Below the adjusted operating income line, first quarter interest expense increased by $4 million in the prior year period, driven primarily by higher interest rates. Going forward, we expect interest expense to decline due to the recent debt paydown.

As outlined in the appendix of our presentation, first quarter earnings excludes certain items which are not part of our core business operations. In the first quarter, adjusted operating earnings were $25 million above GAAP operating earnings due to the acquisition-related expenses and interest expense. Non-GAAP EPU was $0.06 above GAAP EPU, primarily reflecting acquisition-related expenses. The first quarter effective tax rate for ABLP was 6.6%. Our guidance for ABLPs effective tax rate in 2024 remains at a range of 7% to 7.5%, inclusive of a one-time second quarter tax item in the Bernstein joint venture. Post 2024, our normalized effective tax rate would be in the range of 6% to 6.5%.

As noted last quarter, we realized $23 million of savings from the Nashville relocation in 2023. We expect it will remain accretive for the full year 2024 and are on track to realize the full annualized savings of approximately $75 million in 2025, following the lease expiry at 1345 Avenue of the Americas in December 2024.

With that, we are pleased to answer your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from Bill Katz with TD Cowen.

William Raymond Katz ***TD Cowen, Research Division - Senior Analyst***

Just given all the moving parts to the margin story from here, I was wondering, Seth or Jackie, if either one of you could just sort of update the flight path, the way you think the end margins get, maybe with or without the impact of market action?

Jacqueline Marks ***AllianceBernstein L.P. - CFO***

Bill, we're continuing with our expectations. As we've said previously that we have several things in flight that will add 350 basis points to 500 basis points incremental, including the Nashville relocation and the other items that we have talked about. We have not changed that guidance. Of course, we continue to see opportunities beyond that, but we're evaluating efficiencies and scale and continuing to evaluate the strategic initiatives that we're investing in and how they will return.

William Raymond Katz ***TD Cowen, Research Division - Senior Analyst***

And just a clarification. In your guidance for the second quarter or G&A and thank you for that. Is that first adding back the one-time benefit from the state impact? Or is that from the reported number in the first quarter?

Jacqueline Marks ***AllianceBernstein L.P. - CFO***

So, I think your question is in regards to the Tennessee credit of $20.8 million in the first quarter. That is one time, and that is obviously not recurring, but it does actually offset the increased rent expense throughout the year, which for Hudson Yards, the dual rent is $20 million. So that is an offset as well.

William Raymond Katz ***TD Cowen, Research Division - Senior Analyst***

So the guidance is, from the report -- I'm sorry, just to go on this. Is that just your sequential change or do I need to add that back first before, I think, through the reduction? Just want to make sure I don't double count?

Jacqueline Marks ***AllianceBernstein L.P. - CFO***

Yes. So we're -- you're talking year-over-year Q1 versus Q1?

William Raymond Katz ***TD Cowen, Research Division - Senior Analyst***

Well, just second quarter versus first. We can take this offline if you like. It's just, is your guidance on G&A on the first quarter actual number?

Jacqueline Marks ***AllianceBernstein L.P. - CFO***

Yes.

William Raymond Katz ***TD Cowen, Research Division - Senior Analyst***

Okay.

Jacqueline Marks ***AllianceBernstein L.P. - CFO***

Well (inaudible) a little bit nuanced, but yes, I think our guidance is --well, our guidance remains Q2 over Q2.

William Raymond Katz ***TD Cowen, Research Division - Senior Analyst***

Okay, fantastic. And Seth or Mark, thank you for the extra disclosure this morning. Just a question on the opportunity in the democratization side. You listed out a whole number of products that you have a go to and sort of strengthening distribution alliances and maybe more sophisticated data analytics. A number of players are focused on driving such growth, including some of the more installed alternative managers of size and scale. How do you see the opportunity here for growth in terms of the incremental market share? And then how do you sort of see the evolution of maybe the longer-term winners here in terms of how many players can really benefit, like, let's say, for instance, in the BDC world, direct lending et cetera, because there's a number of players all sort of trying for the same opportunity.

Onur Erzan ***AllianceBernstein Holding L.P. - Head of Global Client Group & Head of Private Wealth***

Bill, I'm happy to jump in here and Mark and I can tag team. The thing that makes us very unique and differentiated is, we play in multiple channels, unlike some of our competitors across our U.S. retail third-party channel and our proprietary U.S. Private Wealth business. As a result, we are very experienced with launching private credit and other alternative strategies in -- for high net worth and ultra-high net worth clients.

We had BDCs and other structures, for instance, in our U.S. Private Wealth channel. As a reminder, we have $11 billion in Alts in our Private Wealth, to make that point. We are now applying that expertise into U.S. retail, leveraging our strong distribution partnerships. As Mark mentioned, we have strong momentum with a large number of distribution partners, large wirehouses, large IBDs. With the interval funds that we cut the NAV for in the first quarter, that opens the possibilities for leveraging our scale in Private Wealth and then having the multiplier effect from our distribution partners.

And on back of that, we have a strong pipeline, including another BDC perpetual non-traded vehicle. So all in all, we recognize the competitive trends. But at the same time, given our unique multichannel strengths, given our experience with private credit and private Alts in retail channels, combined with also the global franchise, as some of these products can also scale globally, like we will see in the UCI Part II or the BDC applied to our Asia franchise. We remain quite positive in our prospects in terms of gaining market share and expanding our strong sales and organic growth rate in U.S. retail.

Operator

We'll take our next question from Dan Fannon with Jefferies.

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

Mark, appreciate the details. I was hoping maybe you could look at from Slide 15, kind of based on the opportunity set, where you think the biggest kind of area of growth, when you think about these different channels, where you see the biggest opportunity going forward for AB?

Mark Gessner ***AllianceBernstein Holding L.P. - Head of US Retail***

Yes. Look, I think it's a multipronged growth strategy across channel, to Onur's point. I think we have great relationships where the high net worth households tend to take place with the traditional wirehouses, but where the growth is, in high net worth households in the RIA and independent broker dealer. I think that's probably the biggest upside from here as new pools of money are formed and new eyes with research are on those.

So I think we have a really differentiated product set across the investment vehicles, whether it's SMA, ETF and Alts. So I expect our growth to outpace that growth in that segment, in that specific area.

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

And then maybe, Seth, just broadly on the kind of institutional opportunity today, seeing the pipeline, obviously that's come down a little bit. But just was hoping you could talk more generally about the conversations, the engagement, maybe compare that to a year ago in terms of potential things that are in the market, opportunities for wins and where you see products really starting to gain some traction.

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

Thanks, Dan. And I'm going to ask Onur to contribute. But we're seeing more conversations around fixed income. We are seeing more activity there, albeit slower than I guess I would have thought it would have emerged, but I think that's a function, I think, of the fact of the uncertainty of when the Fed will actually move into easing mode, which we think won't be toward until the end of the year.

But we are seeing reallocations out of equities into fixed income as people hit their targets on the underlying equity valuations. And frankly, we have a very large number of DB plans that are fully funded these days, so people are trying to take risk off the table. That said, we're also then seeing more activity institutionally on value equity searches, which is new for us. And, again, we're seeing episodic events there. We've seen a couple of mandates already be awarded, but we are seeing it there.

And finally, we continue to see activity across the private alternatives area, our private credit investors, which we highlighted last quarter, which is now celebrating its 10th anniversary. It has a number of new vehicles and we're seeing interest not just in the U.S., but also in Europe and Asia for products that they're flagging as well as what we're doing with CarVal.

So, I think it's pretty well mixed across the horizon. We -- I would just think that equities are probably a smaller component of the search activity from our perspective today. And so maybe let me turn it over to Onur for more color.

Onur Erzan ***AllianceBernstein Holding L.P. - Head of Global Client Group & Head of Private Wealth***

Yes. No, that was a great summary. We are very pleased with our institutional sales trajectory, the positive sales growth, both sequentially and year -over -year. In terms of the segment dynamics, we continue to be very excited about our prospects in insurance. We continue to build that insurance vertical. We made a new hire, Geoff Cornell, to lead that Insurance sector with us, along with an existing, very strong team. And we are seeing strong engagement and demand from the insurance clients as we have much more insurance-friendly solutions across the fixed income and private credit spectrum.

I think that space will continue to be quite active, and I think our engagement is going to be heavy in that part of the market. And then, as an example of that, the one new story, in terms of what is new versus maybe a year ago, we started funding our new NAV lending solution, which was out of the PCI platform that Seth referenced earlier. That's a great example of private credit. Some of the new innovation we are realizing in the market and using it with our insurance clients, starting with Equitable.

Operator

We'll take our next question from Luke Bianculli with Goldman Sachs.

Luke Bianculli ***Goldman Sachs Group, Inc., Research Division - Research Analyst***

Appreciate the commentary on the fee rate earlier. If we could just dig into that for a minute, can you help us frame maybe how you're thinking about the trajectory of the fee rate going forward? I'm just trying to square away how to think about base fee rate declines in recent quarters despite stronger equity markets. American income flows, which I understand to be higher fee rate and retail inflows versus institutional outflows, all of which I would have thought would have been tailwinds. So, would just like to get your thoughts there.

Jacqueline Marks ***AllianceBernstein L.P. - CFO***

Well, as I mentioned in my remarks, we expect the fee rate trajectory will continue to reflect the mix of organic growth and combined with market movements. We have -- well, we continue to enjoy a favorable mix from our institutional pipeline, as the fee base is 80% higher fee Alts and the active fee rate at 56 basis points is 3x the channel average, which we expect will be supportive of fee rates over time. But as I mentioned, fee rates down 2% in the quarter was really mix based.

Luke Bianculli ***Goldman Sachs Group, Inc., Research Division - Research Analyst***

Got you. Okay. One quick one. Appreciate the teach-in slides on the retail business this quarter, always super helpful. You highlighted the client segment specialists. How do we think about the impact of the expected 2024 hires? And do you anticipate to keep up the same pace of hiring post 2024? And -- sorry, I know a multiparter here, but how would an eventual slowdown in hiring, I guess, flow through to the expense growth trajectory?

Onur Erzan ***AllianceBernstein Holding L.P. - Head of Global Client Group & Head of Private Wealth***

Let me jump in. Onur here. We basically pace our hiring based on the revenue trajectory. If you look at our U.S. retail business, along with our rest of the global retail business year-over-year, our revenue is trending up. I think it's up around 10%.

So as a result, we have the ability to digest some of the new hires and some of the hiring is more mixed than always net new headcount additions. So sometimes when we have attrition in different parts of the sales organization, our bias is to add more specialists to the mix. And then furthermore, as we think about it, we always take a forward-looking view. As Mark mentioned, we had 7 consecutive years of growth, and we are still in the early parts of our S-curve when it comes to things like our ETFs, which are only 18 months old, and we are now at $2.6 billion with 12 ones.

So when we see these new products becoming available, obviously, we see the opportunity to add more resources to get more sales and revenue out of it. So overall, I think we can pace our hiring and expenses more in line with our revenue trajectory. I know it's not as precise as an outlook or a guidance, but that's our guiding principle.

Operator

We'll take our next question from John Dunn with Evercore ISI.

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

Maybe just on Private Wealth, you mentioned SMAs, Alts and ETFs, but maybe a little more granularity on where demand and gross sales are coming from?

Onur Erzan ***AllianceBernstein Holding L.P. - Head of Global Client Group & Head of Private Wealth***

In Private Wealth, John? Yes. So, in essence, in Private Wealth, we have a very diverse product platform that replicates, obviously, the diverse asset allocations of our high-net-worth, ultra-high-net-worth institutional and family office clients. In terms of demand, we are definitely pleased with the strong track record in raising Alts assets. From a timing in the year perspective, we had a heavier Alts product launch in the second, third, and fourth quarter of this year versus Q1. That is quite different than what we had in 2022 and 2023, and that, by the way, might impact sometimes the sales momentum. So in the second quarter, we have several important fundraises, which we are pleased about, like CarVal's flagship funds coming to first close. We launched that strategy as an example. So overall, you will see the upward trajectory in the private Alts bucket in Private Wealth.

Second, given the equity market uncertainty, clients appreciate some of the structural protection that buffered solutions provide. And we have been innovating on the product side there, both with external as well as internal products. Our new Buffered ETF is definitely a contributor to that. And then finally, taxes are evergreen as clients deal with greater capital gains, our proprietary direct indexing tax-optimization solution PATH had a tremendous run, and we are now approaching $5 billion in that kind of strategy. So I would say, broadly speaking, Alts, some of the more structured multi-asset kind of solutions as well as tax optimization in tax-smart SMAs like PATH.

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

Right. Okay, and then, like, obviously, American Income has been doing great. Can you kind of contextualize how investors think about it in the current rate environment?

Onur Erzan ***AllianceBernstein Holding L.P. - Head of Global Client Group & Head of Private Wealth***

Yes, sure. American Income AIP is our flagship product in Asia. It had its kind of 30th yearly anniversary. It has been a long-standing strategy with very strong followership in multiple markets in Asia. As you know, in a higher rate environment, we see different trends geographically, like for instance, in Europe, you might have higher deposit substitution when you have higher rates. In Asia, however, the consumer behavior is different. Asian investors like income, like AIP provides.

So as a result, we have not seen a huge change in the demand for that product, despite the interest rate environment. And it's capturing relatively high share of those cross-border flows that we track. And hence, it has been a strong contributor to our first quarter results.

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

I'd just add that it's yielding more than deposit rate, which is an important factor in that marketplace, and we're still seeing net inflows from Asia for that product. So not as much as we were before, obviously, given the backup in expectations on a rate drop, but we continue to see interest regularly.

Operator

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

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

Okay. Thanks, everyone, for joining our call. If you have any further questions, please feel free to reach out to Investor Relations. Have a great day.

Operator

Thank you. That does conclude today's presentation. Thank you for your participation today, and you may now disconnect.

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