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PRESENTATION

Operator

Thank you for standing by and welcome to the AllianceBernstein Second Quarter 2020 Earnings Review. (Operator Instructions)

I would now like to turn the conference over to your 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, Natalia. Good morning, everyone, and welcome to our second quarter 2020 earnings review. This conference call is being webcast and accompanied by a slide presentation that's posted in the Investor Relations section of our website, www.alliancebernstein.com.

Seth Bernstein, our President and CEO; John Weisenseel, our CFO; Kate Burke, our COO and Ali Dibadj, Head of Financial Strategy, will present our results and take questions after our prepared remarks. Some of the information we'll present today is forward-looking and subject to certain SEC rules and regulations regarding disclosure. So I'd like to point out the safe harbor language on Slide 2 of our presentation.

You can also find our safe harbor language in the MD&A of our second quarter 2020 10-Q, which we filed earlier this morning. Under Regulation FD, management may only address questions of material nature from the investment community in a public forum. So please ask all such questions during this call.

Now I'll turn it over to Seth.

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

Good morning, and thank you for joining us today. I'm pleased to report strong second quarter results with robust sales across both retail and institutional channels, another strong quarter for active equity flows and organic growth of 3% net of expected AXA redemptions while also expanding our margin. The second quarter was a period of remarkable recovery in the financial markets following the March liquidity crisis and global sell off. In this market, 8 of our top 10 retail taxable fixed income funds posted top quartile performance in the quarter as credit sectors recovered as did 10 of our retail municipal funds.

Our equity platform retained good long-term performance. Bernstein Research continued its year-over-year growth, and we've had several large alternative wins that grew our pipeline. So let's get into the specifics. Starting with a firmwide overview on Slide 4.

Gross sales of $31.8 billion represented the second strongest quarter in over a decade, up $4.5 billion or 16% from a year ago and up slightly sequentially. Firmwide net inflows were $4.6 billion, excluding $7.9 billion of previously disclosed low fee AXA redemption as retail flows rebounded following the industry-wide sell-off in March. Quarter end assets under management of $600 billion increased 3% year-over-year and 11% from the prior quarter, reflecting the strong financial market rebound in the second quarter. While average AUM of $579 billion increased 2% year-over-year and decreased 4% sequentially.

Slide 5 shows our quarterly flow trend by channel. Firmwide net inflows of $4.6 billion, excluding the aforementioned AXA redemptions, were driven by continued strength in both retail and institutional. Retail had its third-best sales quarter ever, active equities generated inflows for the 13th straight quarter and active fixed income had $2 billion of net inflows.

In the bottom left chart, you can see Institutional gross sales of $8.8 billion, among the highest in recent years, excluding the AXA redemption as we had net inflows of $1.5 billion, driven by active equities inflows of $2.9 billion.

In Private Wealth, gross sales increased 13% year-over-year and were down slightly sequentially, while redemptions in this period of market uncertainty led to modest net outflows.

Now let's turn to investment performance beginning on Slide 6. In fixed income, 8 of our top 10 retail taxable fixed income funds by AUM placed in the top quartile of their Morningstar peer group in the second quarter, and all 10 of our retail municipal portfolios by AUM were in the top quartile this quarter from 6 -- with 6 in the top decile.

Disciplined revalidation of our positions by our fixed income teams led to this improvement as several credit sectors posted strong recoveries. Including global and U.S. high yield, which were up 12% and 10%, respectively, emerging markets, up 12% and CRTs up 26%.

Our 1-, 3- and 5-year relative performance improved sequentially with 41%, 45% and 64% of assets outperforming, respectively. We still have a lot of work to do to recover additional performance, and we remain confident in our people, process and approach, which have stood the test of time.

In equities, 67% of our assets outperformed over 3 years and 70% over 5 years. In the most recent 1-year period, 54% of assets outperformed. The remarkable equity market recovery in the second quarter was narrow at the top, led by large-cap technology with the NASDAQ returning 31%, while the broader S&P 500 returned 20%. Several of our strategies, such as our strategic equities portfolio, maintained a lower beta and higher quality bias, which protected well during the March downturn but lagged in the recovery led by high valuation, high-growth technology and some higher beta cyclicals.

Slide 7 and 8 provide more insight on retail fixed income and equity investment performance. The fixed income slide table on Slide 7 reflects the performance improvement in the quarter. Among offshore funds, American income is in the top quartile for the 3- and 5-year periods with second quartile performance aided by the Fund's barbell allocation to recovering credit sectors. European income is in the top decile over the 3- and 5-year periods. And our global high-yield portfolio generated top quartile performance in the quarter, returning 12% as positions in emerging markets debt and CRT's rebounded, though the portfolio lags on a 1-, 3- and 5-year basis.

Of our U.S. taxable funds, global bond fund performance is mixed, despite a strong second quarter 1- and 3-year rankings are dragged down by credit sector challenges in the first quarter and duration positioning in earlier periods. As mentioned, our municipal performance improved. High income and intermediate diversified muni outperformed for the 1, 3 and 5 year periods, while municipal bond inflation lagged.

Moving to equities on Slide 8. Among offshore offerings, sustainable global thematic placed in top quartile in all-time periods, while concentrated global, global low vol and global core are in a top quartile or the top decile in the 3- and 5-year periods. Of our U.S. retail funds, large-cap growth and discovery growth are in the top quartile for the 1-, 3- and 5-year periods. Select U.S. long/short was in the top quartile over the 3- and 5-year periods. Within our value offerings, relative value has outperformed over 3 and 5 years, while our broader offerings lagged.

Moving on to our client channels, beginning with retail on Slide 9. Retail sales of $19.6 billion were the third highest in our history, following a record first quarter. Second quarter redemptions normalized after the industry-wide sell-off in March, and we generated net inflows of $3.8 billion, the seventh in the last 8 quarters of positive net flows.

Net inflows were balanced across both fixed income and equities. Notably, it was our 13th straight quarter of active equity organic growth. AB ranked 11th out of 456 managers for U.S. equity fund flows in the second quarter, that's in the top 3%.

Our scaled retour offerings remain diverse with 48 products of more than $1 billion each in assets, 19 of them equities, 16 fixed income and 13 multi-asset and alternatives. Notable U.S. retail net flows rankings include: Large cap growth, 19 out of 342; small-cap growth, forth out of 166; global core equity, eighth out of 246; and AB high income, 12th out of 180 million.

Offshore retail net flows rankings include: global high yield, second out of 127; American income, first out of 37; and American growth, fifth out of 82.

Now I'll discuss Institutional on Slide 10. Global sales of $8.8 billion more than doubled sequentially and were up 60% from prior year quarter. We generated $1.4 billion of net inflows, excluding the low fee AXA redemptions. Active equity continues to distinguish itself at $4.6 billion, it was the highest equity sales quarter in 12 years.

Net inflows of $2.9 billion in active equities translated into a 33% organic growth rate, led by global core, U.S. concentrated growth and international strategic value. This is the ninth of the last 10 quarters in which active equities have grown organically. Our institutional pipeline grew to a record $17.5 billion at quarter end with $4.7 billion in pipeline additions in the second quarter.

In addition, we had $5.9 billion of new mandates that were both won and funded during the quarter. Notable pipeline additions included $1.1 billion of CMBS, $950 million in global core equity, and $425 million at Arya, our multi-pad long/short fund. We had a very successful $500 million TALF fund raise, which was 4x oversubscribed with 2/3 of a globally diversified LP base new to AB, reflecting strong uptake by a diverse mix of institutions and consultants.

In our growing liquid alts suite, we launched a third fund systematic macro and our merger arb strategy received a consultant buy rating. Our Anchor Path acquisition brings a systematic risk overlay to our multi-asset group, adding approximately $400 million in assets under management, which will be immediately relevant to the insurance sub-advisory channel as well as our global retail channel. We have also expanded our low carbon offerings with the launch of global low carbon equity strategy and plan to launch a low-carbon Asian equity product in the second half of 2020.

Moving to Private Wealth Management on Slide 11. Gross sales of $3.4 billion increased by 13% year-over-year and are up 10% year-to-date versus the prior year. Client risk aversion following first quarter volatility led to continued net outflows in the second quarter. Volatility caused delays in decision-making impacted liquidity events that are precursors of funding. We remain intensely focused on client service and communication and completed the shift to virtual engagement, hosting 171 virtual events in the second quarter. We saw a continued strong client engagement for unique blog visitors, which were up 56% and over 8,000 downloads on our Bernstein podcast network. We continue to innovate in support of our increasingly complex clients. The Muni impact portfolio has grown to $850 million in assets under management, while ESG strategies increased over 30% sequentially.

Our proprietary SMA Tax-Loss Harvesting portfolio continues to scale, with AUM increasing by $150 million this quarter. We closed with over $100 million in commitments to our 2020 vintage private equity fund of funds.

I'll finish our business overview with the sell-side on Slide 12. Bernstein Research continued to benefit from higher global market volatility, leading to higher trading volume and customer engagement. Second quarter revenues grew by 8% year-over-year while moderating sequentially. Global trading volumes remained elevated versus the prior year with the U.S., up 40%; Europe, up 4%; and Asia, up 42%. We are gaining share globally, particularly in Asia, where investments in research capabilities and in India are reaping benefits.

Our virtual strategic decisions conference was, by any measure, a huge success with over 115 CEOs and senior executives presenting and 2,500 institutional investors, up more than 50% year-over-year from over 600 buy-side clients attending. We received very positive feedback from clients for our most ambitious virtual sell-side undertaking to date, supporting the conference's premier status globally.

More than a year has passed to the Autonomous acquisition, we are successfully cross-selling subscriptions, having signed 65 new clients year-to-date. Highlights of some of our second quarter accomplishments are shown on Slide 13. 67% of our equity assets are outperforming over 3 years, including 13 top quartile funds across multiple styles, capitalization and geographic categories.

Once again, we drove net inflows in active equities across both retail and institutional channels. Our experienced fixed income teams had a good second quarter and remain focused on improving performance which we have conviction will continue to rebound over time. Retail sales remained very strong, while our institutional pipeline hit a new record. Active equities and alternatives comprise over 80% of our fee base. Bernstein Research gained global market share and both Bernstein and Private Wealth grew sales year-over-year while focusing on strong customer engagement. In alternatives, we closed on $100 million in PE fund of funds, launched our third alts strategy, raised $425 million at Arya, completed a well-diversified oversubscribed TALF raised and acquired Anchor Path.

Speaking broadly, I would add that it's hardening to see on a year-to-year basis across the industry, active management outperforming indexes in over 2/3 of Morningstar's categories. While we have a number of accomplishments to be proud of, we also have areas we need to improve, and I wish to share with you AB's commitment to racial equality and justice. At AB, we want to live up to our promise to be a caring community that values everyone for their unique perspectives and contributions for which we are all better off.

Diversity is an imperative, particularly in the global investment in organization where outcomes are based on fully informed viewpoints and perspectives as well as robust idea generation. Organizationally, we are committed to specific actions to further recruit, develop and retain black talent at all levels and ensure more black leaders are on path to senior decision-making roles.

We also intend to leverage the strength of our asset management platform and standing in our communities by engaging in intentional activities in how AB operates as well as within the industry to drive collective change in progress. We will hold each other accountable, and I'm confident we have the right people and culture in place to be our best. Now I'll turn it over to John to review our financials.

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO & Senior VP*

Thank you, Seth. Let's start with the GAAP income statement on Slide 15. Second quarter GAAP net revenues of $872 million increased 2% from the prior year period. Operating income of $210 million increased 14% and the 21.7% operating margin increased by 110 basis points. GAAP EPU of $0.59 compared to $0.54 in the second quarter of 2019. As always, I'll focus our remarks from here on our adjusted results, which remove the effect of certain items that are not considered part of our core operating business. We base our distribution to unitholders upon our adjusted results which we provide in addition to and not as substitutes for our GAAP results. Our standard GAAP reporting and a reconciliation of GAAP to adjusted results are in our presentation's appendix, press release and 10-Q.

Our adjusted financial highlights are included on Slide 16. Although, second quarter revenues of $699 million decreased year-on-year, both our operating income of $195 million and our margin of 27.9% increased. We earned and will distribute to our unitholders $0.61 per unit compared to $0.56 in last year's second quarter.

Lower compensation and promotion and servicing expenses more than offset the decreased revenues and primarily drove the improved results. Compared to this year's first quarter, our margin increased 30 basis points, but revenues and operating income decreased due to lower base fees and Bernstein Research services revenues, which were partially offset by lower compensation and promotion and servicing expenses.

We delve into these items in more detail on our adjusted income statement on Slide 17. Beginning with revenues. Second quarter net revenues of $699 million decreased 2% year-on-year. Second quarter base fees decreased 3% from the same prior period due to a lower portfolio fee rate, the effect of which was only partially offset by higher average AUM. Compared to the second quarter of 2019, total average AUM increased 2.2%. The portfolio fee rate of 38.4 basis points calculated net of distribution fees decreased 1.9 basis points year-on-year. The portfolio fee rate was adversely affected by a product mix shift with high fee value equity strategies, now representing a lower percentage of our total AUM than in the past.

In addition, fixed income strategies represent the higher percentage and some fixed income product fees declined. Base fees decreased 7% sequentially from the first quarter due to lower average AUM and portfolio fee rate. The decline due to the lower average AUM was greater than that due to the lower fee rate. Second quarter performance fees of $9 million decreased $2 million year-on-year due to lower performance fees earned on our middle market lending strategies. Second quarter revenues of $114 million for Bernstein Research services increased 8% due to higher revenues in the U.S. and Asia, resulting from increased customer trading activity attributed to greater global market volatility, which offset lower revenues in Europe. The 12% sequential decline was due to lower market volatility and trading volumes. Other revenues decreased $16 million compared to the same prior period because of lower dividends and interest earned on our broker-dealer investments. Interest expense decreased $13 million year-on-year due to lower interest paid on broker-dealer customer balances resulting from lower interest rates.

Moving to adjusted expenses. All in, our total second quarter operating expenses of $504 million decreased 6% year-on-year. For the second quarter, transition costs related to our Nashville corporate headquarters relocation totaled $6 million compared to estimated expense savings of $7 million, resulting in a net $1 million increase in operating income. The $1 million savings is the net of $3 million in compensation savings and $2 million increased occupancy costs.

For the 2020 6-month year-to-date period, transition costs totaled $15 million compared to estimated expense savings of $13 million resulting in a net $2 million reduction in operating income. The $2 million expense is the net of $5 million of increased occupancy costs and $3 million in compensation savings. Total compensation and benefits expense decreased 5% year-on-year on lower incentive compensation, commissions and fringe benefits. We accrued compensation at 48.5% of adjusted net revenues for the second quarter this year, the same as the first quarter and versus 49.5% for the second quarter of last year. If our current revenue trend continues, we may accrue compensation at a 48% ratio for the second half of the year with the option to adjust accordingly throughout the remainder of the year if market conditions change and as we gain further clarity regarding the compensation requirements for our business and the transition costs related to our corporate headquarters relocation.

Second quarter promotion and servicing decreased 31% versus the same prior year period and 26% sequentially from this year's first quarter due to lower marketing and T&E expenses resulting from the COVID-19 travel restrictions. Second quarter G&A increased 4% year-on-year due to higher technology expenses related to our business initiatives, market data and occupancy expenses attributed to our headquarters relocation.

Excluding the increased relocation expenses, G&A would have increased less than 3%. The second quarter operating income of $195 million increased 8% from the prior year as expenses declined more than revenues, reflecting our continued focus on managing expenses and our high incremental margin. The 5% sequential decrease from the first quarter is due primarily to lower base fees and Bernstein Research revenues.

Second quarter operating margin of 27.9% increased 280 basis points year-on-year and 30 basis points sequentially. You may have noticed that our second quarter adjusted EPU was $0.02 higher than our GAAP EPU, while our adjusted operating income was $15 million lower than our GAAP operating income. This is due primarily to the exclusion of the following 3 items from our adjusted results, which are not part of our core business operations.

First, we excluded $1 million in acquisition expenses. Second, we deconsolidated certain seed investments in our adjusted results that we had consolidated for GAAP reporting. Consolidating these investments increased operating income by $21 million but did not affect net income or EPU.

Third, we recorded a $5 million real estate charge for GAAP reporting to write-off the last remaining floor in our White Plains office in addition to some space in our New York City office as a result of our Nashville relocation.

Going forward, this charge will also be deducted from our adjusted earnings on a straight-line basis over the remaining lease terms for our White Plains office 15 months and our New York City office, [4. 5] years, and have been included in our headquarters relocation guidance. The second quarter effective tax rate for AllianceBernstein LP was 5.4%, about as expected. We anticipate that the 2020 full year effective tax rate will range from 5.5% to 6% based upon our current forecast of domestic versus foreign pretax earnings.

I'll finish with an update on our planned corporate headquarters relocation to Nashville. We plan to begin moving employees into our new corporate headquarters building during the second quarter of next year, which is a bit later than we originally expected. We currently anticipate the reduction in 2020 EPU due to the relocation to be approximately $0.02, which is less than our previous estimate of $0.06. The $0.04 expected improvement is attributed to a combination of greater compensation savings and lower occupancy costs due to the delayed start date for the rent on our new headquarters. We anticipate that 2020 will be our last year of EPU dilution relating to our headquarters relocation and project a slight increase in EPU beginning in 2021 with EPU accretion for each year thereafter. In addition, our estimate of ongoing annual expense savings beginning in 2025, once the transition period is over, remains unchanged in the range of $75 million to $80 million per year. While we still expect the total transition cost to be between $155 million to $165 million over the 2018 to 2024 period, we expect total savings to be greater in the range of $185 million to $195 million compared to our previous estimate of $180 million to $190 million for the same period.

I will now turn it back to Seth for some additional comments before we begin the Q&A session.

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

Thank you, John. Turning to Slide 19. Following several productive meetings with many of you this past quarter, I wanted to do something a little different and briefly summarize what we believe distinguishes AB as an investment opportunity.

Firstly, our differentiated investment performance, combined with distribution capabilities has driven sustained organic growth among the best-in-class in the industry. We are expanding our suite of higher fee alternatives. We have a strategic partner in Equitable that is committed to seeding new strategies as well as supporting inorganic growth. We are generating strong incremental margins as we scale up and as we execute on focused cost reduction initiatives. Our partnership structure affords us a less than 10% tax rate, a particularly attractive attribute in the event taxes rise in the future. And we have a robust distribution yield of approximately 9% in a low rate environment. Our AB and Bernstein brands are renowned among best institutional investors, while our Private Wealth business adds significant long-term value. In combination, we believe these 7 traits will continue to drive unitholder value for many years to come.

With that, we are pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question is from the line of Bill Katz.

William Raymond Katz - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

Thanks for the thorough update. Just first question maybe centers on the expense outlook. Appreciate the comp guidance, that's helpful. So how much flexibility do you think there might be typically if you so look to the fourth quarter as you've done in the past. And then underneath that, new promotion was rather low, I think, appreciate sort of the COVID-19 backdrop. So how much of that is sort of a permanent shift versus maybe a transitory shift to the extent that some of the stresses of the pandemic ease into the new year?

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO & Senior VP*

Bill, it's John. So just take these maybe one by one. On the comp ratio, as you see, we're trying to reduce it in the third quarter. Again, we'll just have to see how the outlook goes out beyond the third quarter in terms of as we build our compensation pools from the ground up in the fourth quarter, and we see how the revenues crystallize in the balance of the year to see whether or not we can actually lower it again in the fourth quarter. So we'll just have to wait and see there. Promotion and servicing, down 31%. We're going to be down for the year. I don't think we're going to be down 31%. It's really a factor of, I think, how quickly we resume the normal business operations as far as the traveling, the marketing. A lot of the marketing, it was really down because of lack of firm meetings. We did our strategic decision conference this year, which is relatively costly to put on. We actually did it virtually. It was very, very successful. So as things start to recover, you'll expect to see those expenses increase. We're down about 11%, I think, on a year-to-date basis. So I think about this year, perhaps that's a good starting point to think about for this year to be down around that, assuming that we start to recover as we get towards the back half of the year.

On the G&A side, we're up 4%. You strip out the relocation or up less than 3%. I think that's probably a good guidance to go by for this year as well.

William Raymond Katz - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

Okay. Just a follow-up. On the -- in your slide deck, you mentioned a part of the Institutional business, I think it was, you raised the CLO fund. Sort of curious to the timing of that, given the backdrop? Was that something more recent? Was that something that just was raised previously and this happened to fund this quarter? Just trying to get a sense of that business line.

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

Bill, it's Seth. And I think we didn't raise the CLO fund. We intend to raise it once we think conditions have stabilized efficiently. We think there are signs of that now, but we were in place before the crisis hit, and we put it on hold. And so we're just watching the market. So I hope -- just to clarify, there isn't a CLO that's been raised.

William Raymond Katz - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

Okay. I apologize.

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO & Senior VP*

Bill, it's John. Just to add to that. So that CLO, it was actually just a mandate from an institutional client that asked us to manage a CLO.

William Raymond Katz - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

Got you. Okay. So it's an existing one where you just took over the management of it.

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

Correct.

William Raymond Katz - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

I understand. Okay. I apologize for the -- not seeing that correctly.

Operator

Your next question is from the line of Mike Carrier.

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

First one, John, just on the fee rate, you gave some color, whether it was year-over-year and quarter-over-quarter, that it was lower. I get that average market can distort things and given the volatility it's tougher to predict. But just on some of the nuances on some of the product trends, where you mentioned on the value products. Has that started to slow, given some of the growth that you're seeing in some of the other product areas? And I know on the institutional side, you said the pipeline is equities in all, which generally has a higher fee rate. So just trying to get a sense of maybe the ending fee rate? And then any color on the outlook, which I know is tough to predict?

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO & Senior VP*

Sure. So, Mike, I think when you go back and you look at what happened in second quarter of this year to the second quarter of the prior year, again, the value equity side, it was -- it used to be basically about 14% of our overall portfolio was in high fee value equities, it's now down to about 12%. So it's 2 full percentage points, and these are very high fee products over 75 basis points or so. So well above our fee rate on our portfolio and then, there was sort of shift into fixed income. So taxable fixed income of about the same thing of about 2%, much lower fee rate, much well below the portfolio fee rate. And there was also some fee pressures on those plain vanilla fixed income products. So -- but I think when you look out longer term, when you think about the pipeline, it's at a record Institutional $17.5 billion. Those are very heavily centered in active equities and alternatives. The fee rate on that pipeline is well in excess, almost 2x our institutional fee rate. So as that funds, I think that bodes well for the portfolio fee rate for the firm. And as we continue to build out our alts business as well, those are higher fee rate products. So that's going to help us well. We're also losing the AXA mandates, those -- that $14 billion, that's low fee fixed income mandates. The $7.9 billion came out this quarter -- at the end of the quarter, so that will help us going forward as well. So we had a mix shift and a lot of this is done by -- from the market in terms of value equities being out of favor. They have all equity markets sold off in the fourth quarter, but the growth equity is rebounded and valuated. And so we're really seeing the effects of that this quarter.

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

Got it. Okay. That makes sense. And then just as a follow-up, Seth, just in fixed income, good to see the performance rebound this quarter. But if you look at the 1-, 3-year, still under a little bit of pressure. It seems like if we back out AXA, you're still seeing decent trends despite that. But just more curious from the distribution standpoint and talking to clients, is the long-term process enough to kind of keep demand there? Or are you getting more questions, concerns from clients on the shorter-term underperformance?

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

Thanks, Mike. Interestingly, I have been concerned that the impact of the first quarter would hurt the potential for continuing flows. I'm delighted to say we haven't seen that yet, although, it's still possible given that the longer-term track records or at least the 3- and 5-year track record still need to heal more but the fact is we have seen inflows both in institutional. And I think more from a revenue perspective, more importantly, from retail and in particular, from Asia, where those key funds are principally sold. So it hasn't been impacting us, but we're watching it pretty closely. A much longer-term track records of both AIP. AIP is still very strong, but global high-yield as well remain quite competitive. But you're right, that 3- and 5-year is still challenged.

Operator

Your next question is from the line of [James Phil].

Unidentified Analyst

So my question is just on Slide 19. It looks like you mentioned M&A couple of times there. They said previously been a huge part of the AB story. So I'm just curious if this is a new focus for you guys if it's based on feedback that you've received or your assessment of the current M&A landscape?

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

I don't think it's a change, and I'd respond to you by saying, I think it's a reaction to the current landscape. It's my contention, our contention that the market is increasingly challenging for subscale managers, whether they're in private alternatives or in traditional areas. And I think we offer a really appealing proposition for those people who have a really differentiated return stream. I think we can get them scaled quicker and to a much faster breakeven through our distribution capabilities as well as our relationship with equitable and with our private client franchise. So I just feel as this current extraordinary economic situation continues, and I suspect we'll see quite a lot of volatility in markets. That smaller managers may be looking for ways to monetize their positions or frankly find a more stable platform they're on today.

What we're not suggesting, and let me make this really clear, is that we've changed our M&A strategy and are searching for a large merger of equals kind of strategy. We continue to be focused on incremental capabilities that we can add either in our product areas or in distribution selectively. So no, I don't think it's a change. We just think the marketplace may offer more opportunities. I'm hoping that's the case.

Operator

Your next question is from the line of Craig Siegenthaler.

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

Can you guys hear me?

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

Yes.

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

Perfect. First, an industry flow question. Just given how low rates are across most of the fixed income market, do you think retail and institutional investors will continue to migrate aggressively into all segments? Or do you think we're going to see more of a tilt into higher-yielding segments like high-yield or global bond or maybe that active equity momentum you're seeing will actually continue for longer?

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

Look, I think the Fed and the ECB, BOE and others, are forcing people into equities. I think that is the implications of the actions they've taken and the put they've effectively placed, certainly on the front end of the fixed income market. That said, we still see value for institutions, particularly those who are managing liabilities in the investment-grade arena institutionally. But that's a finite group of people and you know who they are.

I think it's going to continue to concentrate in higher-yielding portions of the market because that's the only play they have. I'd say to you that if all they're looking for is duration, they need a lot less of it to accomplish the same diversification benefit in a multi-asset portfolio. So I don't know that, that speaks optimistically for the demand for government bonds generally. I think it actually decreases demand over time. And I also think that fixed income markets other than high-yield and elements of structured credit and EM don't really provide income anymore. So I think people are being forced to look at equities as a replacement there as well. So I think your inclination is correct. And I guess in regard to Muni's, we continue to see pretty strong demand there. But you know Muni's demand has increased, for sure, after this -- the instability that we all saw at the end of the first quarter, it seems to have stabilized pretty well. I think the Fed and the treasury have been pretty important to that. And to the extent we do see a deterioration in Muni credit quality, that may change that calculus. But at the moment, there is still demand there. Not as much for sure, but there is still some.

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

Just as my follow-up, maybe a few details on what is driving the outflows in the private client channel. And do you think there's a path towards positive organic growth in this channel over the intermediate term?

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

What's been driving it for us really has been risk aversion that has caused a number of our clients to want to stay on the sidelines in private client. I think performance in the first quarter was also challenging for them, particularly when they looked at Muni portfolios and saw negative returns in some cases, that's a pretty unusual circumstance. I think that's an industry-wide phenomenon, certainly is not a reflection of our own unique performance. But we shared it. And so I guess I'd say, Craig, that I think that's temporary. And while we have seen modest outflows over the past several quarters, we have experienced ourselves pretty good growth there prior to that. And I think that's a function of the team's focus on -- really on ultra-high net worth clients, where we're seeing increasing demand, and that's driving our strength there. But in contrast, we have a book of business of smaller accounts that we've had for a long time, where we're seeing aging and decay. And so that's a treading as the other side as our growth in the ultra-high net worth is expanding. So they're underlying crosscurrents in our results in Private Wealth, but I suspect that we will begin to see stronger organic growth in the future. It may not be next quarter, but the teams are very focused on what they're doing. They have interesting services, they're marketing to clients. And frankly, this is a really volatile year.

And given that the overall level of uncertainty, which I think really characterize as markets broadly, I'm not particularly surprised. But look, we're focused on it. It's an important area to see renewed growth there.

Operator

Your next question is from the line of Alex Blostein.

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

I wanted to follow-up on the comment you made earlier around the clients and some of the fixed income product fees. Is that a function of lower interest rates? And just there's just more sensitivity in terms of the fee people are paying given gross yields have come down as much as they did. Any channel or geography that's pushing harder, I guess, on this? Or any additional color would be helpful.

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO & Senior VP*

Sure. Alex, it's John. So some of it is just the plain vanilla institutional fixed income products where there's been fee pressure across the industry now for quite some time and our peers are feeling it, and we're feeling it as well. There is, though, some element of the lower interest rate in terms of more of the Retail sector and the Private Wealth sector. So there has been some folks in the Private Wealth channel that have moved into lower interest-bearing, lower fee fixed income products that we manage. So that's had an impact as well. And the Private Wealth channel was actually hit the hardest as far as the decline in fee rate compared to the Retail and Institutional channel.

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

Got it. And then just maybe a follow-up around the dynamics in the active equity business. Seth, you guys have been, obviously, uniquely, I think, positioned in this part of the world, most of your peers are seeing active equity outflows. So maybe incremental detail would be helpful there in terms of what are you seeing from either increased search activity or anything sort of idiosyncratic that AB is doing to drive flows into active equities, obviously, beyond performance, performance has been great. But curious if there is anything unique what you guys are doing on the distribution side, that's been helpful over the last couple of quarters now.

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

Thanks. Look, we have -- some of it's luck, some of it is surely skill. This has been a growth in core driven market, and we happen to have strong candidates for both Retail and Institutional clients to consider. And what I think is really driving it more recently is search activity amongst institutions. We've seen pretty robust new inquiry and new RFPs coming out of consultants. These are replacement searches typically, and so we are seeing good flow there in several particular strategies that have been beneficiaries. So that particularly in global space, global core equity, for example, and concentrated growth. So we've seen in our strategic core product. So we've seen increased activity there. I do think that it's becoming received wisdom among gatekeepers in Institutional and Retail that you really do have to have an idiosyncratic return stream, net of your factor returns to really earn your place in these portfolios. And that makes intuitive sense to us and I think more and more people are using that as a basis to screen product. And so shortly, there's some luck involved. Some of it is where we invested in the past 10 years to rebuild our capabilities. That said, where the market-focused to shift to value, we'd have a more challenging opportunity there because we have seen some slightly improved performance in 1 or 2 areas within our value suite, but that suite continues to be pretty challenged.

Operator

Your next question is from the line of Robert Lee.

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

Seth, maybe first question, just 1 follow-up a little bit on the equitable part of support, yes, I think you highlighted the, I know, the willingness to support kind of, whether it's seeding products or maybe something inorganic. But could you maybe give an update on what they're contributing currently to other assets or gross flows? Is it really more of the contribution from the support of the strategy? Or is there -- are you seeing some kind of change or pickup in their contribution to kind of new business?

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

We may have to come back to you on specific details, but it is both. And maybe Mark could clarify if I'm wrong on the numbers. But they have been -- they will be the equity investor, for example, in the CLO portfolios that we're starting up. They're also going to be key investors on some commercial real estate debt investments that we intend to undertake, particularly in Europe. They have continued to show us flows and work with us on different parts of their general account. If their general account is not growing in size. So I'm just -- I'm going to actually turn to Mark or to John. Maybe to John to give specifics on the flows there, just to help me through.

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO & Senior VP*

Sure. Thank you, Seth. Rob, just to give you some perspective here. Still, as has been for many years, the percentage of our AUM related to AXA Group and Equitable is around a quarter, around 25% or just below and the fee is roughly about 5% of our revenue. Over time, though, there's been a shift. So as AXA Group has exited or redeemed some of those strategies. There's been talking about this $14 billion of low fixed rate -- fixed income. It's been picked up by Equitable. They picked up the slack. So we still sit at those overall numbers on the portfolio in terms of AUM and fees. But it's much more now heavily over on the Equitable side of the coin. They picked up a lot over the past couple of years as AXA Group has basically redeemed certain strategies.

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

And, look, it's been pretty beneficial to Equitable in doing it. I neglect if I mentioned, I think they just seeded a merger ARB fund for us as well. So they continue to be quite supportive to us.

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO & Senior VP*

But it's been very helpful, even in terms of -- we put in place a credit facility, a $900 million credit facility several months ago, that is actually allowing us to borrow in the markets well below the commercial paper rates. And so when you look at our interest expense, it's down for 2 reasons. One is just rates are down, but it's also because of the borrowing out that we're doing from Equitable as opposed to in the CP market. They've been very helpful.

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

Great. And maybe just a quick follow-up also on the Private Wealth business. During your comments, Seth, about it's still positive to have longer-term outlook, particularly in that ultra-high net worth. I'm just kind of curious kind of maybe more near-term how -- what your thoughts are about your ability in this environment to add to the adviser headcount? And I would assume it's notwithstanding the more positive outlook, it's just client acquisition, it's just moderating, it's harder to get in front of people, certainly in the ultra-high net worth segment. Would that be a fair characterization or not so much?

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

Well, I'd certainly say that with the shutdowns of the company, the pandemic, it certainly forced us to change the way we're trying to engage. Although, the activity levels are pretty high, but I suspect that, that is creating a temporary slowdown. But we haven't really experienced much resistance to our introductions and meeting and networking with new higher -- ultra-high net worth clients. But with respect to your first question with regard to financial advisers, we've been growing that group by 5% or 6% annually for the last couple of years, 3 years, and we want to continue doing that. But as you know, we're not hiring typically laterally from other financial advisers. We're typically training our own, taking people, make career from other segments, the law, other sales functions and retraining them. And that is a longer term investment, but we have a pretty high hit rate. So I don't have anything really to report different there now, but we are continuing to do that, and it's proven successful over time.

Operator

(Operator Instructions) Your next question is from the line of [John Dunn].

Unidentified Analyst

Your ESG has been growing well and building, but it's becoming more and more ubiquitous in people's conversations. Can you maybe just give us a little color on why you think your approach is going to outpace other guys?

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

It's certainly -- you're right that it seems to be the order of the day. But I think what will make -- differentiate us is exactly what differentiates us across our services today, and that's our commitment to fundamental research. Our contention is that people are not going to be -- buyers are not going to be content in simply the statement that you utilize an ESG lens to analyze stuff or that you're prompting or engaging companies and providing a voice to push management to a more responsible approach to managing their business. I don't think that's enough. We don't think that's enough. What we think is important is to actually be able to track it, audit it and report it. Because people want to see both investment performance as well as performance results that are auditable on nonfinancial measures or noninvestment measures. And that's what we're working really hard to do. We have incorporated in our equity and credit research functions, proprietary research and collaboration tools, which allow all our teams to share information on what they learn with clients. So we try to use that ESG integration in our fundamental analysis across asset classes to give us shared understanding of the progress or lack of progress individual companies are making. But in addition, we think we need to continue to educate ourselves. And that's why we entered into this partnership with Columbia University's Lamont-Doherty Earth Institute. We've already -- Phase 1 is already done, which is we developed a client with them. Their faculty, a client curriculum for our investors and it's been available for all of our investors to take classes. It starts pretty grim, but there's really exciting stuff that rolls out of it because the impact of climate change have been so profound already. But we're taking that into a Phase II, which includes joint research initiatives, hopefully leveraging Columbia's capabilities to help us develop climate risk scenario tools for our investors. And even to think about potentially product development ideas. So I'm very excited about what we're doing, and it is translating to different steps that we're taking on the product side today. So for example, we launched a couple of years ago now, a carbon-neutral portfolio that invests in global stocks. And they're valued. We utilize a tool to measure carbon cost with respect to valuing those stocks for inclusion in the portfolio. We launched a credit version of the sustainable global thematic strategy, which investment companies that are focused on achieving the UN strategic development goals. So we have a number of products that we think will speak and resonate with different types of investors, both institutional and retail as we go forward. But I think ultimately, what will differentiate us is, again, returns. Returns measured more broadly in this case, but returns nonetheless.

Unidentified Analyst

Got you. And then just on investment spending, you guys talked about tech data. Maybe could you go a layer down on maybe some of the projects you're working on, and particularly in the vein of customization?

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO & Senior VP*

Sure. John, it's John. The big project we're working on has been driving a lot of that -- most of that increase in tech is actually, we're redoing our multi-asset systems. So our portfolio management for multi-asset, we had a kind of a conglomeration of an equity system, a fixed income system, alternatives, and we're actually redoing the entire platform to be a holistic multi-asset. So that's really been the largest spend there. There also has been some spend in terms of -- for our client experience on the Private Wealth side, some mobile applications, and then with regards to our client group, which is our distribution function for the -- for our team to be able to be more efficiently a -- function more efficiently and manage their client relationships more efficiently as well. So those have been kind of the main areas of the spend.

Operator

There are no further questions at this time. Ms. Griffin, I turn the call back over to you.

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

Thanks, Natalia. Thank you, everyone, for participating in our conference call today. Now please feel free to contact Investor Relations with any further questions, and have a great day. Goodbye.
