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CORPORATE PARTICIPANTS

Ali Dibadj *AllianceBernstein L.P. - Head of Finance & Strategy and Portfolio Manager*

Catherine Cooney Burke *AllianceBernstein L.P. - Chief Administrative Officer & COO*

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the AllianceBernstein Third Quarter 2020 Earnings Review. (Operator Instructions)

As a reminder, this conference is being recorded and will be available for replay for 1 week. I would now like to turn the conference over to the host for this call, Head of Investor Relations for AB, Mr. Mark Griffin. Sir, please go ahead.

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

Thank you, Carmen.

Good morning, everyone, and welcome to our third 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; and Ali Dibadj, Head of Finance and Strategy, will present our results. John Weisenseel, CFO; and Kate Burke, COO, 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 third 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. Thank you for joining us today. We're pleased to report third quarter results that highlight consistent strength across our platform. All 3 channels delivered net inflows led by another robust quarter for active equities in both Retail and Institutional. We posted annualized active organic growth of 5% net of AXA redemptions, while expanding our margins and delivering double-digit earnings and distribution growth to unitholders.

The third quarter saw a continued broad-based recovery in global financial markets across both equities and fixed income.

Our Retail fixed income funds outperformed peers in the third quarter as credit sectors improved, while our equities performed -- platform retained good long-term performance.

Let's get into the specifics. Starting with a firm-wide overview on Slide 4. Gross sales of $29.3 billion were up $3 billion or 11% from a year ago, moderating sequentially from second quarter's near record levels. Firm-wide net inflows were $5.3 billion, excluding $2.2 billion of previously disclosed low fee AXA redemptions.

Active net inflows of $7.3 billion, excluding AXA redemptions represented a 5% annualized organic growth rate. Quarter end assets under management of $631 billion increased 6% year-over-year and 5% from the prior quarter. An average AUM of $624 billion increased 6% year-over-year and 8% sequentially.

Slide 5 shows our quarterly flow trend by channel. Firm-wide net inflows reflected growth in each channel, driven by strength in Institutional. In Retail, we generated net inflows of $700 million, led by continued strength in active equities which grew by 8% organically; and munis, which grew at 12% organically, more than offsetting the effect of moderating taxable fixed income sales. As shown in the bottom left chart, Institutional gross sales remained strong at $8.3 billion. Excluding the AXA redemptions, we generated net inflows of $4.3 billion, balanced across both active equities and active fixed income.

In Private Wealth, gross sales increased 52% year-over-year and were up slightly sequentially, and we generated net inflows of $300 million for the quarter.

Now let's turn to investment performance beginning on Slide 6. Our fixed income funds benefited from multi-sector credit positioning in a risk on third quarter. For the quarter, our Retail fixed income funds ranked in the 39th percentile of the Morningstar peer group. This follows the second quarter when we placed in the top quartile.

In the third quarter, 5 of our top 10 Retail taxable fixed income funds by AUM placed in top quartile of their Morningstar peer group and 8 out of 10 were in the top half. And 10 of the top -- 8 out of the top 10 Retail municipal portfolios by AUM were in the top quartile, with 6 in the top decile.

Our strategies benefited from continued recovery in credit sectors, which outperformed governments. U.S. High Yield was up nearly 5%; European high yield, up 3%; emerging markets, up 2%; and global corporates up 2%, all posting healthy excess returns versus governments, which returned 0.002%.

In fixed income, 49% of assets outperformed over the 3-year period and 63% outperformed over the 5-year period. On a 1-year basis, the percentage of assets outperforming declined to 24% as our large American Income fund slightly underperformed the diverse peer group. It's important to note that, as mentioned, we outperformed the peer group in both Q2 and Q3.

Since April 1, Global High Yield is in the top quartile, 24th percentile; and the American Income is in the 34th percentile.

Key industry participants have noted our team's ability to balance back from short-term underperformance in the past. We remain confident in the proven track record of our people, process and approach. In equities, long-term performance remains strong as 67% of assets outperformed over both the 3- and 5-year period.

In the most recent 1-year period, 43% of assets outperformed. 1-year performance was impacted by our Large Cap Growth Portfolio, which, while still outperforming most peers over the 1-year period at the 47th -- 42nd percentile of the Morningstar peer group, fell below the Russell 1000 Growth Institutional benchmark, which continues to be driven by a narrow group of megacap tech stocks.

For perspective, before the tech sell-off in September, these 5 tech stocks were up 56% year-to-date through August, driving all of the S&P 500's year-to-date gains at that point and representing a record 39% of Russell 1000 Growth weighting.

While our large-cap and core growth equity strategies own these names, prudent risk management suggests lower weightings than their high benchmark levels. Fully 25% of the active risk in these 5 megacap stocks is the momentum factor, which we're adverse to chasing. As market leadership broadens beyond technology, as it did in September, these strategies should be well positioned versus relatively concentrated benchmarks.

Slide 7 and 8 provide more insight on Retail fixed income and equity investment performance.

In Slide 7, we show the majority of our offshore funds retaining good performance. As mentioned, both Global High Yield and American Income have outperformed their peer group since the March downturn. American Income retains top quartile performance for the 3- and 5-year periods driven by the fund's time-tested barbell allocation to rates and credit.

Among U.S. taxable funds, as risk assets rally continue, we have taken some gains, letting risk positions drip lower. In High Yield, structured credit contributed significantly over the quarter as did security selection. Our municipal funds continued to show strong performance across the board, benefiting from an overweight to mid-grade muni credit and favorable sector selection.

Moving to equities on Slide 8. Among offshore offerings, a number of strategies are in the top quartile for the 3 and 5 years. Our sustainable strategies have benefited from investing in secular growth companies that maintain high quality attributes, including strong ESG ratings, high returns on capital and clean balance sheets. These should continue to command a premium in today's uncertain environment.

In the U.S., our growth teams have driven strong long-term performance by investing in companies with proven profitability that can self-fund their reinvestment to drive future growth. These high quality companies are able to successfully manage through any environment and come out the other side in a better competitive position. In a market saddled by diverse hazards, our fundamental research teams are focused on broadening our portfolio's sources of risk and return to build equity portfolios with short-term shock absorbers and long-term staying power.

Moving on to our client channels beginning with Retail on Slide 9. Gross sales of $17.5 billion normalized following very strong prior year comparisons. We generated net inflows of $700 million, the eighth in the last 9 quarters of positive net flows. The left-hand chart shows that our Retail channel has benefited from improved balance in asset classes brought by consistent active equity inflows. That was our 14th straight quarter of active equity organic growth delivered against a challenging industry backdrop.

Once again, AB ranked in the top 3% for U.S. equity fund flows in the quarter, placing 14th out of 450 managers. Inflows were led by U.S. Large Cap Growth and sustainable global thematic. Our scaled Retail offerings remain diverse with 55 products of more than $1 billion balanced across asset classes.

As shown in the bottom right, a number of these have excellent net flow rankings.

Now I'll discuss Institutional on Slide 10. Gross sales of $8.3 billion were nearly triple that of our prior quarter and were down slightly sequentially. We generated $4.3 billion of net inflows, excluding the low fee AXA redemption. Active equity sales have accelerated to greater than $2 billion in 6 of the last 7 quarters.

In the third quarter, active equity net inflows of $1.6 billion represented a 14% annualized organic growth rate. This was the 10th of the last 11 quarters in which we have grown in active equities organically. Equity flows were led by international small cap, global core and concentrated growth.

Our Institutional pipeline was $16.9 billion at quarter end with $4.9 billion in pipeline additions in the quarter. $7.1 billion was funded in the quarter, including a $2.6 billion lifetime income strategies mandate. Notable pipeline additions include $4 billion of customized retirement strategies, $450 million in global core equity and $250 million in concentrated Australian equity.

Taking a step back, we've been explicit in our goal to offer investment strategies that deliver idiosyncratic returns that can't be replicated by factors or other betas, and that has resonated with our clients but that alone isn't enough. Additionally, we've cultivated our network of consultants and asset owners.

In equities, we received 5 consultant upgrades this quarter, 2 for select long/short in addition to global core, Eurozone equity and global sustainable. Additionally, we've been -- we have seen the substantial increase in client requests related to ESG, including an increase in RFPs for our ESG-focused portfolios for purpose. We now manage nearly $15 billion in these strategies with AUM up 50% year-to-date. Four of these funds were named as finalists by Investment Week in their 2020 Sustainable & ESG Investment Awards, including Sustainable Global Thematic, responsible U.S. equities, Green Managed Volatility Equities and Sustainable Thematic Global Credit.

We're also pleased to have recently launched a commercial real estate debt business in Europe, including a planned sizable commitment from our partner Equitable.

This is part of our stated strategy, expand our Institutional alternatives platform to new markets while leveraging our strong relationship with Equitable as they seek yield-enhancing investment alternatives.

Moving to Private Wealth Management on Slide 11. Gross sales of $3.5 billion increased by 52% year-over-year and were up 3% sequentially. Redemptions improved as outflows stabilized. We generated net inflows of $300 million in the quarter. Clients still remain relatively risk adverse, though, it was hardening to see some signs of growing in business transactions that are a precursor to client fundings.

Our focused client engagement efforts continue to emphasize virtual events, and we're seeing traction on online client engagement with unique downloads up 88% across our Bernstein Insights Network.

The Muni Impact Portfolios continues to grow. Now $950 million in AUM, while ESG strategies have grown to $3.7 billion. Our proprietary separately managed equity loss harvesting portfolio continues to scale, with AUM up 34% this quarter.

I'll finish our business overview with the sell side on Slide 12. Bernstein Research experienced slowing Institutional trading volumes this quarter with revenues down 3% year-over-year and down 13% sequentially. A significant share of year-over-year U.S. market volume growth was due to higher Retail trading, which Bernstein does not participate in. We were pleased that our Asian business, including India, continues to post strong growth, validating our earlier investments. Our European Strategic Decisions conference had over 100 CEOs and senior executives virtually presenting and 1,250 Institutional investors from well over 400 buy-side firms. We initiated on 4 sectors this quarter and published an integrated ESG research report across 50 global sectors, leveraging our bottoms-up sector expertise to identify critical ESG issues for the stocks.

We also experienced strong flow and leadership of pre-IPO research enabled by our conflict-free research platform. Highlights of some of our third quarter accomplishments are shown on Slide 13.

67% of our equity assets are outperforming over 3 years, including 11 top quartile funds across multiple styles, capitalization and geographic categories. Our differentiated return streams continue to resonate with clients as we drove net inflows across all 3 client channels in the quarter. This is led by active equity growth across Retail and Institutional, which grew organically by 8% and 14%, respectively. Our Institutional pipeline remains very strong, with over 50% of the fee base comprised of alternatives. We continue to grow our alternatives, multi and multi-asset offerings as evidenced by seeding 6 multi-asset strategies in 2020. Importantly, our results show strong expense management which is benefiting our bottom line as we grew earnings and distributions by double digits this quarter.

Finally, as announced earlier this quarter, our CFO, John Weisenseel, has decided to retire from AB effective in early 2021. John has been a strong partner to me in recent years and to AB over his 9-year tenure, and we're grateful for his leadership.

John is currently transitioning his responsibilities to Ali Dibadj, Head of Finance and Strategy, who will assume the CFO role in February. Ali will walk us through the financials this quarter.

Ali Dibadj - *AllianceBernstein L.P. - Head of Finance & Strategy and Portfolio Manager*

Thanks, Seth. So let's start with the GAAP income statement on Slide 15.

Third quarter GAAP net revenues of $900 million increased 3% from the prior year period. Operating income of $217 million increased 7% and the operating margin was 24.1%, up 150 basis points.

GAAP EPU of $0.70 compared to $0.62 in the third quarter of 2019, up 13%. As we've done in the past, we'll focus 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 a substitute for our GAAP results. Our standard GAAP reporting and reconciliation of GAAP to adjusted results are in our presentation appendix, press release and 10-Q.

Our adjusted financial highlights are included on Slide 16. While third quarter revenues of $727 million were flat year-on-year, operating income of $216 million increased by 8%; and operating margin of 29.7% increased by 220 basis points, driven by strong incremental margins. We earn and will distribute to our unitholders $0.69 per unit compared to $0.63 for last year's third quarter. Lower compensation and promotion servicing expenses primarily drove the improved results. Compared to this year's second quarter, revenues increased by 4% due to higher base fees, operating income increased 11%, and our margin increased 180 basis points, reflecting operating expense growth of just 1% on lower promotion servicing and G&A expenses.

We delve into these items in more detail on our adjusted income statement on Slide 17.

Beginning with revenues. Third quarter net revenues of $727 million were flat year-on-year. Third quarter base fees increased 1% from the same prior year period on higher average AUM, partially offset by a lower portfolio fee rate. Compared to the third quarter of 2019, total average AUM increased 6.5%. The portfolio fee rate of 38.3 basis points calculated net of distribution fees, decreased 1.9 basis points year-on-year. Lower fees earned on various equity fixed income products and mix drove the decrease which, you may recall, we first discussed last quarter.

Sequentially, base fees increased by 8% from the second quarter, reflecting 8% higher average AUM across all channels with the portfolio fee rates essentially flat with last quarter, as we discussed. Third quarter performance fees of $7 million were down $1 million year-on-year as lower performance fees for our middle market lending and concentrated global growth strategies were partially offset by higher fees from Arya, our multi portfolio manager long/short strategy.

Third quarter revenues of $99 million for Bernstein Research Services decreased 3% year-on-year due to reduced client trading volumes in the U.S. and Europe, partially offset by robust growth in Asia.

Revenues decreased 13% sequentially due to lower client trading activity in the U.S. and Europe. Investment losses of $1 million compared to gains of $4 million in the prior year period and resulted from losses on our broker-dealer investment portfolio and lower seed investment gains.

Other revenues decreased $11 million compared to the same prior year period because of lower dividends and interest earned on our broker-dealer investments.

Interest expense, on the other hand, decreased $12 million year-on-year due to lower interest paid on broker-dealer customer balances resulting from lower interest rates.

Moving to adjusted expenses now. All in, our total third quarter operating expense of $511 million decreased 3% year-on-year due to a lower compensation ratio and lower promotion and servicing expenses. For the third 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 in savings is a net of $4 million compensation savings and $3 million increased occupancy costs.

For the 2020 9-month year-to-date period, transition costs totaled $21 million compared to estimated expense savings of $20 million, resulting in a net $1 million reduction in operating income. The $1 million expense is a net of $8 million of increased occupancy costs and $7 million of compensation savings.

Total compensation and benefit expenses decreased 1% year-on-year on lower fringe benefits, other employment costs and commissions. We accrued compensation at 48% of adjusted net revenues for the third quarter of this year versus 48.5% in both the second quarter and the prior year quarter. As we typically do at this time of the year, we plan to revisit our comp ratio and adjust accordingly as we gain further clarity as to the full year's revenue, compensation requirements for our business and the transition costs relating to our corporate headquarters relocation.

If the current market conditions persist, we do not expect that fourth quarter comp ratio to exceed 48.0%. Third quarter promotion servicing decreased 29% versus the same prior year period due to lower T&E and firm meetings, resulting from continued COVID-19 travel restriction. Third quarter G&A increased 4% on year-on-year due to increased miscellaneous taxes and unfavorable foreign exchange translation.

In addition, G&A included the write-off of onetime legal fees incurred for products which will not be launched. Excluding these onetime legal fees, G&A would have increased by less than 2% year-on-year. Third quarter operating income of $216 million increased 8% from the prior year as expenses declined by 3%, reflecting our continued focus on managing expenses and delivering our targeted high incremental margin.

Operating income increased by 11% sequentially, due primarily to a strong increase in base fees combined with a minimal 1% increase in operating expense. Third quarter operating margin of 29.7% increased 220 basis points year-on-year and 180 basis points sequentially.

You may have noticed that our third quarter adjusted EPU was $0.01 below our GAAP EPU and our adjusted operating income $1 million lower than our GAAP operating income. This primarily reflects office space lease impairments, which were recorded and reflected in GAAP financial results in previous quarters, but must be amortized over the remaining lease terms earned as the financial results.

The third quarter effective tax rate for AllianceBernstein LP was 4.2% lower than expected, reflecting a higher mix of domestic versus foreign pretax earnings. We anticipate that the 2020 full year effective tax rate will range from 5% to 5.5% 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 continue to expect to moving employees into our new corporate headquarters building during the second quarter of next year. We currently anticipate the reduction in 2020 EPU due to the relocation to be approximately $0.01, which is less than our prior estimate of $0.02 and our $0.06 original guidance for 2020. We continue to expect that 2020 will be our last year of EPU dilution related to our headquarters relocation and project a slight increase in EPU beginning in 2021 with EP accretion for each year thereafter.

Our estimate of ongoing annual expense savings beginning in 2025, once the transition period is over, is unchanged and is expected to range from $75 million to $80 million per year.

With that, I'll turn it back to Seth.

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

Thank you, Ali. Turning to Slide 19. You might recall, last quarter, we began more directly articulating the reasons to invest in AllianceBernstein. We'll return to the slide with some frequency to test our progress on behalf of unitholders. This quarter, we continue to execute along the following dimensions that we outlined.

Firstly, we drove 5% active annualized organic growth ex AXA outflows based on differentiated investment performance. We continued to expand our suite of higher fee alternatives through our recently launched European Commercial Real Estate Debt business, which Equitable plans to support, another example of the strong mutual interest in growing our yield enhancing longer-dated alternative strategies.

We drove expanded margins year-over-year and sequentially, with G&A up less than 2%, excluding a write-off of onetime legal fees.

As a partnership, we continue to benefit from a durably low tax rate, and we continue to pay 100% of our adjusted income, supporting our robust distribution yield of approximately 8% in a low rate environment. We look forward to continuing to report progress along these lines in the future.

With that, we're pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And your first question will come from Craig Seigenthaler.

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

I wanted to start on fixed income. So just given how low rates are today and the depressed for net return prospects across fixed income, are you seeing a rise in fee pressure in either your bond business or in your private client business?

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

Craig, it's Seth. Thanks for the question. We've been seeing pressure for a long time in the -- particularly the investment-grade Institutional business. And I think we've talked about that in the past. That continues.

Haven't seen the pressure in the private client business. And in the Retail business there -- I mean, we have seen some pressure in the Retail business that has impacted us certainly in the third quarter. But I wouldn't say that anything unexpected. I think it's just the continuation of a trend that we've been experiencing along with the industry for some time. But I think your point is right. It will continue.

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

And then we saw a large reset in bond yields in March and April. But despite that, there's been a very strong migration into fixed income. Do you think we're at a point now where this may start to stall, just given how low rates are? And I know you've seen a pickup in other areas like active equity, but most of your peers have not.

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

Look, I think people are -- remain risk adverse. I think income continues to be the theme that resonates with investors, both Institutional and even more so, at least in our experience in Retail and I think that continues. There's really -- there's nowhere else they can go. But ultimately, I think the central banks are pushing people into equities. I think that is the net result of this. And so I share your concern that this could ultimately begin to reverse because the role of fixed income is harder to justify and define in a zero-bounded marketplace.

Operator

Your next question will come from the line of Robert Lee.

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

KBW. If I could drill down a little bit into the Retail flows, if possible. Can you maybe break it down? How you're seeing kind of your APAC business in the quarter and what you're seeing there? I mean, obviously, equity flows have been good. But just trying to get a sense of what you're seeing demand-wise or expectations, particularly in fixed income in Asia, which has been, I guess, a strong point for you guys for a while.

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

Rob, it's Seth. Equity -- I'm sorry, fixed income flows in Asia have certainly in the third quarter slowed, and we see that trend continuing. I think that really is a story of 2 things. One, the local markets have been strong, particularly the Chinese equity market. And that I think, has diverted attention. I also think that as we were just talking in the prior question, Craig's question, that lower rates, obviously, yield is important, and yields have been falling as the prices have risen.

So yes, I think both of those impacts are there. We certainly have not seen any wholesale run for the doors. There's continuing interest. We still see positive flows. But it's not at the level we had seen earlier this year or certainly last year.

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

Great. And then maybe as my follow-up, you probably won't be able to get through a call with quarter without asking -- someone asking about M&A. So I guess maybe I'll ask it. I could probably guess your response, but you update us with all the recent talk, chatter about consolidation and scale, kind of your viewpoints on where you see AB fitting within that? And how you -- just your thoughts on that kind of trend in AB?

Ali Dibadj - *AllianceBernstein L.P. - Head of Finance & Strategy and Portfolio Manager*

Sure. It's Ali, I'll take that. So obviously, there's been a lot of activity and there's a lot of anticipated activity. I'd say 3 things, I guess. One is we're very much in the flow of information on this. You can imagine, we see a lot of things come our way. We can pitch things, et cetera. And so we're not surprised that there might be even more activity around the corner and very much had a sense of what was going on in the past. The second thing I'd say is as we've looked at it -- as they've combined, as we look at our own history and the industry's history. We are challenged to make sense about some of the large acquisitions that went on. In other words, our philosophy is if cost-cutting is the major vector of value creation and M&A, the probability that, that M&A is going to work is actually quite low, right? And we've seen that over and over again, and the market, frankly, has riddled with examples of that so far. So that's our view broadly about the M&A that we've seen, much of the M&A that we've seen so far. Some of them actually makes sense. But our view, Morgan Stanley event is actually quite interesting as an example and most recent ones.

But broadly speaking, what we look at for M&A, as point number 3, is areas where we can surgically bring on talent, bring on teams that we can grow. Where it's not a cost-cutting story, but it's a growth story. And that's where we find -- we add the most value, given our strength of distribution and finding teams that have the same investment discipline, great track record, a good cultural fit is the best way we can serve our clients. So that's our M&A philosophy.

Operator

Our next question is from the line of Mike Carrier.

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

First, I just wanted to clarify on performance. It sounds like 3Q was fairly strong in fixed income. But on the performance chart, it seems like fixing income and equities slipped a bit on the 1 year. I'm realizing that can be solid quarters rolling off, or I think you mentioned American Income. I'm a bit below, but just wanted to confirm that. And then more importantly, flows have been favorable and the pipeline looks good. Just wondering if the weaker short-term investment performance is starting to have much of an impact on conversations or clients. You remain focused on the stronger 3- and 5-year track record?

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

Mike, it's Seth. Let me just clarify one thing. Your question is around equity flows or fixed income flows or both?

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

It's basically both, just like the 3Q performance looks a little bit weaker, but it seems like overall, on the active side, not just this quarter, but you guys have still been putting up good flows. So it doesn't seem like it's having a big impact. But just more curious if it's coming up in conversations more.

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

It isn't yet, but that doesn't mean it won't. And we recognize that performance is the leading indicator or one of the key leading indicators on flows. So we take it seriously. I do think that clients understand that, in the case of large cap growth, which is really what triggered, I think, the significance in the change on the equity 1 year is really a story about just how narrow the equity markets are, and you guys know that story as well as we do. It's really quite remarkable. And we just weren't as concentrated as the benchmark. Now that could persist for a while. It has been out there, but we've done quite well. And in the retracement we saw a bit in September, we gained a performance as a consequence of that. So we're watching it, but we haven't seen any adverse behavior or flows as a consequence of that yet.

But it's out there. With respect to fixed income, look, I think, particularly in American income, the uniqueness of that strategy and the yield that it has offered clients has been compelling. They -- our clients in Asia, in particular, know the team well and are familiar and comfortable with the risk on, risk off nature of markets and how this portfolio performs. So it's been gaining performance since March. And we're hopeful that it will continue to gain altitude again. But I mean, the performance is performance, and so we watch it, and it could foretell lower flows in the future, but it hasn't so far. But overall flows, the overall market has been slower.

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

Right. Okay. Makes sense. And then just given the favorable longer-term performance and positive flow trends, just wanted to get an update on how you guys are thinking about your distribution positioning. And if you see some areas of opportunity, whether it's invest in or areas to invest in to drive additional closed.

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

Well, look, first and foremost, I'm glad you asked that question, is China for us. We think that we have a lot to benefit from in building a presence, and we are doing that now, as I think you know, in Shanghai, and we're moving forward in our process with regulators. We -- that will start as more of an onshore money management to onshore distribution, but our hope is that, that ultimately opens up into being able to bring to Chinese investors our capabilities in global -- in global investing, both fixed income and equity. I think that hands down is the biggest opportunity we see. And that's why we're investing so aggressively there. But beyond that, we continue to want to expand our private client business and are doing so and adding at base. And we are continuing to look at what we are doing here in the United States in our Retail channel. So I think, look, it's been a continuing investment focus for us since I've been here. And on the margin, China is where our emphasis is, but we continue to add resources, albeit slowly in the U.S. and a little bit in Europe.

Operator

Your next question comes from the line of John Dunn.

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

Evercore, ISI. Maybe just on the mechanics of the pipeline. Any changes to where the demand is coming from or has funding times changed over the past year? And is it coming from existing customers, you're getting any new customers? Any color you could just give around the pipeline?

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

Sure. Thank you. Look, the pipeline had $4.9 billion of additions in the third quarter. And we -- it always changes a bit. I think what is different now is we have with the passage of the Secure Act, we're seeing considerably more interest in customized retirement, and that tends to be big DC plans. And we -- and so given the size of those, they tend to be disproportionate, they're also lower fee. We see that. We also have seen, interestingly, some very large fixed income investment grade, but that also tends to be lower fee and we've seen cash. Cash has been moving back and forth. We don't have a large cash business like some other firms, but that introduces volatility both ways to the pipeline.

In equities, most of that is client -- I'm sorry, is consultant intermediated. And therefore, in a number of cases, our new clients to the firm. And so it's continued to be a door opener for us, both here and in Europe and to some degree, in Australia. And so that has been positive for us. And in the alternative space, that really is Institutional as well. And when it's fund raising for the commercial real estate debt or middle market lending, they tend to go back to their original investors or their existing investor base. But we continue to add, periodically, mostly from insurers and others who are looking for higher yielding assets.

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

And then maybe a little more on the European commercial real estate business. Maybe what order kind of the objective? Maybe what this might potentially look like over the next few years? And then how does that region differ from the U.S.?

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

Well, we -- we want to take advantage -- well, Ali, why don't you answer the question?

Ali Dibadj - *AllianceBernstein L.P. - Head of Finance & Strategy and Portfolio Manager*

Okay. No, no problem. I think we're probably going to say roughly the same thing. Thanks for the question there. Look, we're really pleased to have launched this commercial real estate debt business in Europe. It's important for us for a couple of main reasons. One is, it's a classic example of us being able to lift and shift our knowledge base and our capabilities, and frankly, a little bit of our brand from one region to the other. Obviously, we have a very strong U.S. commercial real estate debt business. And so launching this in Europe is something that's very important to us and shows the ability for us to expand on (inaudible).

The second thing that it showed, and Seth mentioned this in his prepared remarks, is, importantly, it ties in to planned commitment from Equitable. It ties very much to their strategy, publicly stated of improving their yield, improving their returns, and this is a great way to do that.

We think, to your questions, this scales quite well. And we do believe that there's more opportunities like this in alts to expand geographically from what we have as a good core base in the U.S.

Operator

Your next question is from the line of Robert Lee.

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

I'm just curious, I mean, in the Private Wealth business, you called it out that your SMA tax loss harvesting business. And arguably something similarly may be one of these things that tracking Morgans Stanley the (inaudible). So could you talk a little bit about are there plans to kind of roll out that capability more broadly than Retail? That was my question.

Catherine Cooney Burke - *AllianceBernstein L.P. - Chief Administrative Officer & COO*

It's Kate Burke here. Look, in our Private Wealth business, I think that what you've seen from a tax perspective, much of what we do is really in that SMA form, and that is a very attractive area for us that we continue to look to leverage and building out overall the Private Wealth business. We certainly are looking from a product strategy standpoint across channels and how we can leverage success in one channel to another that has been a focus of our product strategy work here. And so we're going to continue to look for opportunities to see if there's a way to leverage that also in the Retail channel.

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

Great. If I could -- maybe just one more follow-up. Just, Seth, generally. I mean, you guys, I think, have always been more sensitive to capacity constraints and your strategies, maybe relative to some peers, which long-term is a good thing. I'm just curious. I know if you have any -- I mean key strategies where you feel like you may be approaching capacity limitations over the coming quarters just given good demand?

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

It's Seth. Let me (inaudible) well we obviously always are monitoring capacity in small and mid-cap space. And some of that is closer, and so that would be the most likely stuff. In the larger cap areas, we do have capacity limits. We think we have sufficient room that it shouldn't be impacting us any time in the near future given the level of flows we're having.

Operator

And your next question is from the line of Bill Katz.

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

Just some technical difficulties on my end. Just in terms of the 5 consultant upgrades, you went through that rather quickly. I was just wondering if you could maybe step back and just talk about maybe the cumulative opportunity across the product lines there?

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

Bill, it's Seth. Yes, I think over it quickly, and maybe I should have been slower. We got 2 upgrades for our select long short strategy. We had an upgrade for global core and an upgrade for our Eurozone equity and an upgrade for our sustainable growth service.

Look, I think there's significant opportunity as we get broader support from the consultant community. The lead time on that is very hard to -- yes. It's when they have demand and start refocusing on those spaces. And so it tends to be episodic. So for example, we've seen a lot of interest for our global core strategy, and a lot of that was consultants sponsored. And it's -- they utilize a sustainable lens and to evaluate the companies they invest in. And they had a lot of appeal to institutions, particularly outside the United States, where ESG is a more important focus.

We think that's adaptable in the United States well. So we do see it as an important door opener for us, but I think we would be foolish to try and handicap it and estimate what the impacts are not that you were asking so specifically for it because it's very much on their timeframe and their priorities that we -- and we benefit from it.

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

Great. Okay. And just maybe a follow-up for Ali. You gave some fourth quarter guidance for the comp. Just sort of quick recollection, that ratio seems to be a little bit higher than what maybe was in the past couple of years of this -- for the fourth quarter. What would be some of the sort of the variables for your thinking in terms of what might be a range within that, no more than 48%?

How to think about what some of the key drivers might be?

Ali Dibadj - *AllianceBernstein L.P. - Head of Finance & Strategy and Portfolio Manager*

So thanks for the question. I guess, in an absolute term, 48% isn't higher than what we delivered in the past, in the fourth quarter, at least, from where we started the year.

Remember, when we started this year, we took down the comp ratio by a full point. So we started at a much lower level than we have done in the past. And we, as you've seen, have done our best to ratchet that down over time by being just more efficient across the board. So that's just a little bit more context to that question for the fourth quarter specifically, but the big variable is going to view the markets. If the market is where we are today, we don't think will go above 48%. But frankly, your magic 8 ball is probably as good as my magic 8 ball about what could happen over the next couple of quarters. And so we just want to be very prudent in that to make sure that we are appropriately careful about the comp ratio and making sure we provide for our talent at the firm in the context of what's probably going to be a volatile market.

Operator

Next question is from the line of Alex Blostein.

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

Guys, I was hoping you could expand a little bit on some of the recent commentary you made with respect to your relationship with Equitable. They obviously have a stated policy with trying to improve their yield on the assets, just like many other insurance companies, I guess. But can you talk a little bit about what strategies that you provide fit well within that? What are sort of the fee rates and opportunity set you see that for yourself? And I guess, lastly, is there a bigger almost kind of like investment management agreement dynamic that you guys could work out with Equitable at some point of time like we've seen with other sort of like insurance and asset management partnerships?

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

Alex, thanks for the question. Look, we've been building our private alternatives business hand-in-hand with AXA initially and now Equitable. And we focus with our middle market lending business, with our commercial real estate debt business. We will do the same with our European commercial real estate business. And we're continuing to look for other interesting areas within private credit to build with the sponsorship of Equitable, although they have to separately evaluate it and review its appropriateness for their general account. But we work very closely, strategically with them in planning out that agenda, and we have an understanding with them about our process and timing and the ultimate amount of money that we may need for them to deploy and support helping us build out those additional capabilities.

We think actually the partnership as it's currently configured with Equitable is the way it should work because of the lines the interest of the policyholders and Equitable and AB's shareholders and unitholders, respectively.

In that ultimately, Equitable benefits from the improvement in earnings we get from what are clearly higher feed products and growth of those new businesses through their 60-plus -- 65% holding of AB units, AB's ownership. So we think that alignment is pretty natural. And I think the coordination between the firms is quite strong and quite interactive. So we think it's an important plank in our growth strategy.

Operator

Your next question is from the line of Dan Fannon.

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

I just wanted to follow-up on the fee rate and kind of the outlook there. Retail seems to be the soft point in the quarter. Can you talk about the mix and kind of what are some of the factors are behind that? And how we should think about the fee rate, I guess, in the overall context going forward?

Ali Dibadj - *AllianceBernstein L.P. - Head of Finance & Strategy and Portfolio Manager*

Sure. Thanks Dan. So let's talk about the fee rate and just aggregate it a little bit to give you some extra color. So look, on a year-on-year basis, it was down 190, so 1.9 basis points. Lots of moving parts, obviously. But essentially, that change is the same change as we saw last quarter on a year-on-year basis. The idea some of the issues and some of what's moving around is effectively the same. Broadly speaking, just to remind you, the value equities portion of our AUM was lower last quarter year-on-year, this quarter, year-on-year. And that is a very high fee product, right? So that's a mix effect.

That actually happened pretty meaningfully in the private wealth channel that shift around and value equities happen there as well. But you're right, I mean, more broadly, we are seeing some pressure, as Seth mentioned in his prepared remarks and answered to earlier question on fixed income, and some of that is in the Retail channel as well.

But net-net on a year-on-year basis, broadly, the same themes that we saw last quarter, we talked about last quarter. And that leads to, I guess, the second point, which is on a quarter-on-quarter basis, we're essentially flat, right? So essentially flat. We're seeing some fee pressure across the board, Institutional, Retail, but nothing remarkable, I'd say, relative to some of the stuff that we talked about last quarter. The 1 thing, though, from a going forward perspective, that it's worth emphasizing to your question about what we'd anticipate. And Seth mentioned just a little bit, but it's just worth underlining is if you look at the pipeline, the pipeline, specially on the Institutional side, has a very broad dispersion right now of fee rates in it, right? So yes, alternatives, yes, active equity is the majority of it, the largest piece of it. But you'll see this, and you saw this in some of our monthly AUM announcements that we're getting lifetime income strategy and CRS mandates. We're getting some of these mandates that are really chunky, so really big mandates. We disclosed the $2.6 billion, one that we talked about before. And those, just by nature of what they are, much lower fee rates. So the dispersion within the pipeline is quite big. What that means is, although, the fee rate will be grinding higher, right? It may not be linearly grinding higher, right? As something fun, that's a lower fee rate and it happens to be an x billion-dollar mandate, you might have quarter-to-quarter volatility in that fee rate. But the thesis is exactly the same as it's been. And we're fortunate to have some of these larger mandates come in. They happen to be lower fee rate. But again, it's the same thesis as before, grinding slightly higher over time, but could be a little bit more volatile quarter-to-quarter.

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

That's helpful. And I guess just thinking about spending for next year, it's early. I'm sure you're still in the budgeting process, but just trying to get a sense of kind of what you're thinking about kind of return to normalization for certain discretionary items and how we should be thinking about kind of 2021 expense trajectories for some of those line items?

Ali Dibadj - *AllianceBernstein L.P. - Head of Finance & Strategy and Portfolio Manager*

So you're right, we're going through that process right now. If you look, for example, at some of our expenses and disaggregate them, right? Comp and Ben, as you know, we're pretty focused on that and some of the help that Nashville is going to give us -- will certainly flow into that, we hope, going forward. But if you look at, for example, promotion and servicing and G&A, right? So pro and servicing obviously was the big in this quarter and you've seen so far as the past couple of quarters, a drop for the year. The big driver of that is certainly T&E, which is down a lot, right? So you can imagine, think about your own travel schedule, think about our own travel schedule, and a lot of travel going on, right? So our hope, for everybody's sake, broadly for the world that, that gets back to a little bit more of a normalized level. We are, however, looking for opportunities to not go back necessarily to the same level as we were, say, in 2019 as a whole. We're trying to really think through what the opportunities are. For instance, we have conferences that are much more virtual now, as I'm sure you all do as well. And is that something that we can do with more permanency. To be clear, we don't expect things in T&E to be down as much as they were this year next year, but we're being very, very careful in not trying to go back to like the past normal because it might not be the past normal going forward.

All that to say, we'll wait and see, and we'll see what the clients want and adjust accordingly. But our hope is there'll be some savings, right, and learnings from what's happened this year on the promo and servicing area.

On G&A, the guidance is the same, right? We always try to keep that in line with inflation, hopefully, a little bit slightly below. And again, you've seen it go up 4% quarter-on-quarter for this quarter. Remember that if you exclude some of these onetime charge-offs, it's less than 2% of growth, which is very much within the bound that we want G&A to go at. So hopefully, it gives you a little bit more color as we think about it going forward.

Operator

And there are no further questions at this time. I'll now hand the call back to Mr. Griffin for any closing remarks.

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

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

Operator

Thank you for joining today's webcast and conference call. You may now disconnect. Feel free to contact Investor Relations with any further questions. Please have a great day.
