

ALLIANCEBERNSTEIN®

**Annual Letter from  
President & CEO  
Seth Bernstein  
2022**

# Letter from the CEO

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Following a buoyant 2021, the global economy and financial markets faced challenging conditions from the outset of 2022. Rising inflation drove higher interest rates globally, negatively impacting financial market returns across asset classes. Sentiment was further impacted by rising geo-political concerns. A fourth-quarter market rebound was a small consolation for diversified investors in 2022.

At AllianceBernstein, our efforts remain focused on our valued clients, for whom we continue to **pursue insight that unlocks opportunity**. In an era of heightened volatility, our investment teams anticipate a range of future outcomes and position investment portfolios accordingly.

In 2022, this client focus was demonstrated by our placing sixth in the top 25 list of Most Trusted Financial Companies, a comparison including many larger, broadly diversified financial firms with globally recognized brands.<sup>1</sup>

I am also proud to report that despite the volatile environment, the firm made meaningful progress executing on our growth strategy. Our globally diversified platform grew active assets organically for the fourth consecutive year, counter to industry trends. With the support of our partner, Equitable Holdings, we executed on multiple strategic transactions, and grew in private credit with the mid-year acquisition of CarVal Investors. We also embarked on a promising growth opportunity for Bernstein Research through a joint venture agreed upon with Société Générale, which we expect to close in late 2023.

At AB we strive to deliver our best thinking to clients in a way that works best for them. Thus, we launched our first active exchange-traded funds (ETFs) in 2022, with liquidity and income products. We anticipate active ETFs will continue to grow in investor usage over time, given their tax efficiency and liquidity advantages.

We also invested in our insurance asset-management business, where we grew third-party assets under management organically. In municipals, we redesigned our investment platform to enable customization and tax optimization at scale for custom municipal separately managed accounts (SMA). This marked the tenth consecutive year in which we've grown our municipal SMA business in the US, expanding market share, even during last year's industry-wide contraction.

In addition, we continued to invest in establishing a wholly owned onshore China asset manager, for which our application was recently accepted. And we continue to launch new investment strategies across our core offerings and institutional, retail and private wealth channels.

At AB we manage the business with a view toward the long-term, while making necessary trade-offs in the near-term. In that vein, we recently took necessary action to reduce headcount, reflecting our expectation that markets are likely to remain volatile.

We continue to prioritize and address the changing needs of our workforce. Our leadership team responded to the request for continued flexibility while also recognizing the inherent benefit to our business when our people work together in the office for most of the week. We sought to find balance based on our staff's input, and we feel that our blended approach of in-office and remote work time delivers what is best for all.

<sup>1</sup> Source: Investor's Business Daily's 25 Most Trusted Financial Companies, 2022.

AB's continuing commitment to Diversity, Equity & Inclusion (DEI) across all facets of the firm aligns with our belief that the workplace is both a working and learning community. We seek to empower our people through purpose and fostering an inclusive and equitable culture that allows for connectivity, belonging and success at every level.

## **2022 Market Overview**

Rising inflation became the key issue for financial markets early in 2022. The rapid reopening from the COVID pandemic led to a global supply and demand mismatch in many industries. This was coupled with Russia's invasion of Ukraine, pushing energy and food prices higher. As the year progressed, inflation broadened to include service industries, for which labor is the primary input cost. Labor markets remained very strong, particularly in the US, even as some evidence of a growth slowdown filtered in, raising the possibility of a more durable inflation problem.

Persistent inflation triggered a wave of aggressive global monetary policy tightening, highlighted by more than 400 basis points of interest-rate increases from the US Federal Reserve, as well as the beginning of the reduction in the size of the Fed's balance sheet. Other central banks followed suit, pushing yields on fixed-income instruments up. The combination of higher rates and increasing risks to the growth outlook pulled equity markets sharply lower.

Thus far in 2023, key indicators are sending mixed signals about the economic outlook. The inverted US and European yield curves point to a very high probability of a recession. Meanwhile, the robust labor market in the US suggests a much more sanguine outlook. We expect that the pace of disinflation is likely to be the determining variable. A more rapid normalization of prices would reduce the probability of a hard landing. But if inflation stays elevated for months to come, central bankers will have little choice but to continue tightening, even if that means a recession is the outcome.

## Executing Our Strategy

We continue to execute on our strategy “**Deliver, Diversify and Expand Responsibly**, with **Equitable**.”

**Delivering** strong investment performance is a key priority. In 2022, our fixed-income performance was impacted in a difficult environment, while the majority of our equity assets outperformed. For the three- and five-year periods, performance was solid, and 70% or more of both asset classes outperformed over the five-year period.

Our **fourth consecutive year** of active organic growth was led by a robust rise in custom target-date solutions and private alternatives. We also continued to gain market share in our retail channel in active equities and municipals, both of which grew despite industry-wide net outflows.

We **diversified** our global product suite by offering core investment solutions through new vehicles (Active ETFs) to meet client needs, launching Ultra Short Income and Tax-Aware Short Duration Muni ETFs. New investment strategies included Diversity Champions Equity, SMA Custom Muni and Fixed Maturity Portfolio 2025.

We successfully **expanded** through the strategic acquisition of CarVal Investors, resulting in private markets AUM of US\$56 billion, +57% over the prior year.

Our **responsible investing** offerings continue to resonate with investors, with our Portfolios with Purpose platform totaling US\$23.8 billion of AUM at year-end, or 12% organic growth. In 2022, we added two new strategies aligned with the UN’s Sustainable Development Goals—Diversity Champions and Sustainable Euro High Yield—as well as a strategy that seeks to benefit from China’s decarbonization drive and a new private wealth Impact strategy.

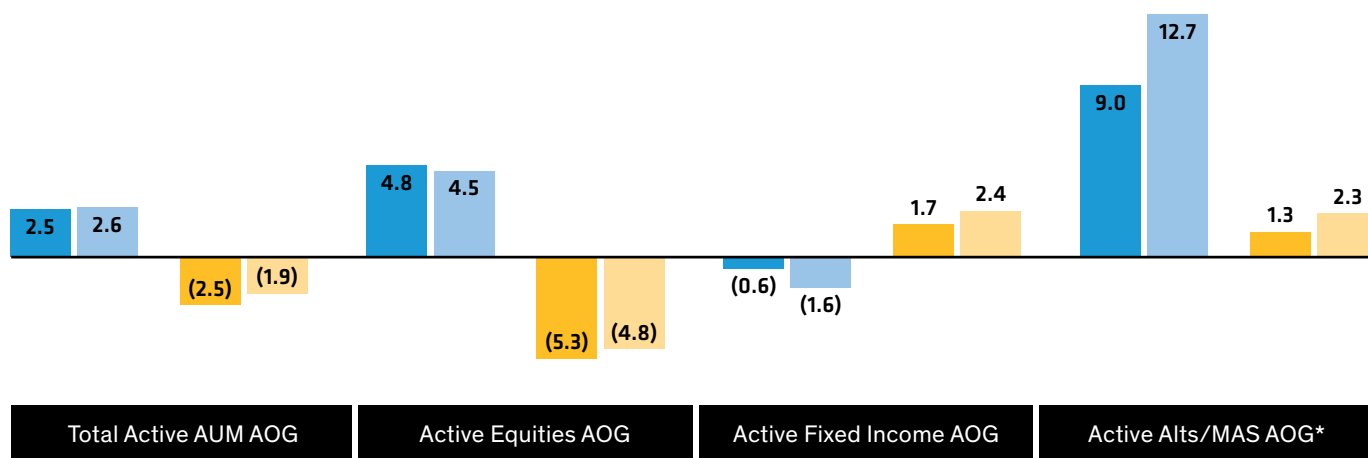
Our partnership with **Equitable Holdings** continues to bear fruit, as Equitable deployed 70% of its **US\$10 billion allocation of permanent capital** to our private alternatives and private placements platform by year-end. This mutually beneficial program increases the higher-yielding element in their General Account, accelerating the growth of our higher-fee, longer-dated private alternatives platform.

In the Retail channel, annual sales of US\$66 billion were down US\$34 billion from last year’s record level. Despite this, active equities grew organically for the sixth straight year, while municipals grew organically for the tenth straight year—the latter led by our SMA Tax Aware and SMA Custom strategies.

## ACTIVE NET INFLOWS

Average Annualized Organic Growth Rates (“AOG”) for Active AUM

5-year avg. AOG (FY18 - FY22) | 3-year avg. AOG (FY20 - FY22) (percent)



● AB (2018-2022) ● AB (2020-2022) ● Peer Average (2018-2022)† ● Peer Average (2020-2022)†

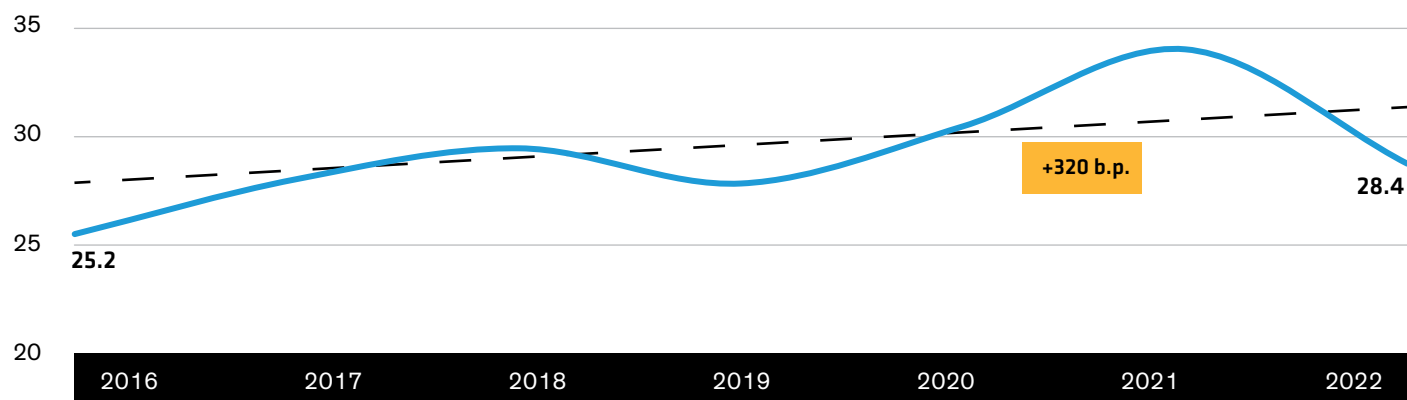
Note: Total Active AUM and Active Fixed Income Average Annualized Growth excludes \$11.8 billion in low-fee AXA terminated mandates during 2020, \$1.3 billion in 2021 and \$2.3 billion in 2022

\*Includes peers with continuous Alts/MAS exposure over each corresponding period

†Peers: AMG, BEN, BLK, IVZ, JHG & TROW

## AB ADJUSTED OPERATING MARGIN

Full Year Adjusted Operating Margin (Percent)



Regionally, US Retail grew organically for its **fourth consecutive year** and Japan grew for the **fifth straight year**.

In our Institutional channel, 2022 sales were US\$32 billion, the highest since 2008, driven by US\$16 billion in fundings from two custom target-date mandates. This was the **fourth straight year** of net inflows.

Our Institutional channel pipeline was US\$13.2 billion at year-end, with a fee rate more than three times the channel average, driven by private alternatives, which comprise more than 80% of the annualized fee rate.

In Private Wealth, gross sales of US\$17.5 billion declined just 4% versus a strong prior year. Net inflows were positive for the second straight year and fifth of the last seven. Encouragingly, our client mix continues to shift toward our ultra-high net worth (US\$20 million and over) clients, which remains our fastest growing cohort.

### Managing Profitability

We are managing our business to deliver targeted average incremental operating margins in the range of 45%–50%—not every year, but over time. In 2022 we fell below this range, with an incremental margin of 35%, reflecting weaker financial markets, lower performance fees and inflationary impacts on expenses.

Importantly, we were vigilant in managing those expenses where we do exercise more control, as shown by our compensation and benefits ratio of 48.4%.

For the full year, our adjusted operating margin was 28.4%, with adjusted earnings and unitholder distributions down 24% versus the prior year.

Our Nashville relocation contributed to AB's earnings in 2022 and is forecast to do so again in 2023, growing to an expected annual contribution of US\$75–US\$80 million by 2025.

As a partnership, we continue to benefit from a **durably low** tax rate of approximately 10%, attractive relative to corporate peers. And we continue to pay out 100% of our adjusted operating income, or US\$2.95 per unit in 2022, a robust yield of 7%.

Over the last five years, AB has generated a total shareholder return of 113%, versus the S&P 500 of 57% and the peer group of –3%.<sup>2</sup> Our reinvested distribution has comprised well over half of AB's total shareholder return over this period.

<sup>2</sup> Peer group includes Affiliated Managers Group, Franklin Resources, BlackRock, Janus Henderson Investors, Invesco and T. Rowe Price.

**People and Culture**

In 2022, AB prioritized a focus on self-care for its staff as the ongoing conversation about mental health and wellness continued to shape the way we thought about the employee experience.

We invested significantly in building the resilience and capabilities of our managers, so they were able to support all staff as we emerged from a time of uncertainty. At the senior levels of the firm, we defined our leadership expectations to ensure we demonstrated a commitment to the progress of both our business and our people. Leaning on our culture, we emerged from the pandemic, grounded in our purpose and led by our values. Every day, I hold our leaders accountable for maintaining the engagement, productivity and satisfaction of staff, as maintaining this focus is integral to our success.

Being in the office three days per week positively impacts individual professional development and provides opportunities to learn and grow. Additionally, defined time working remotely allows for focused

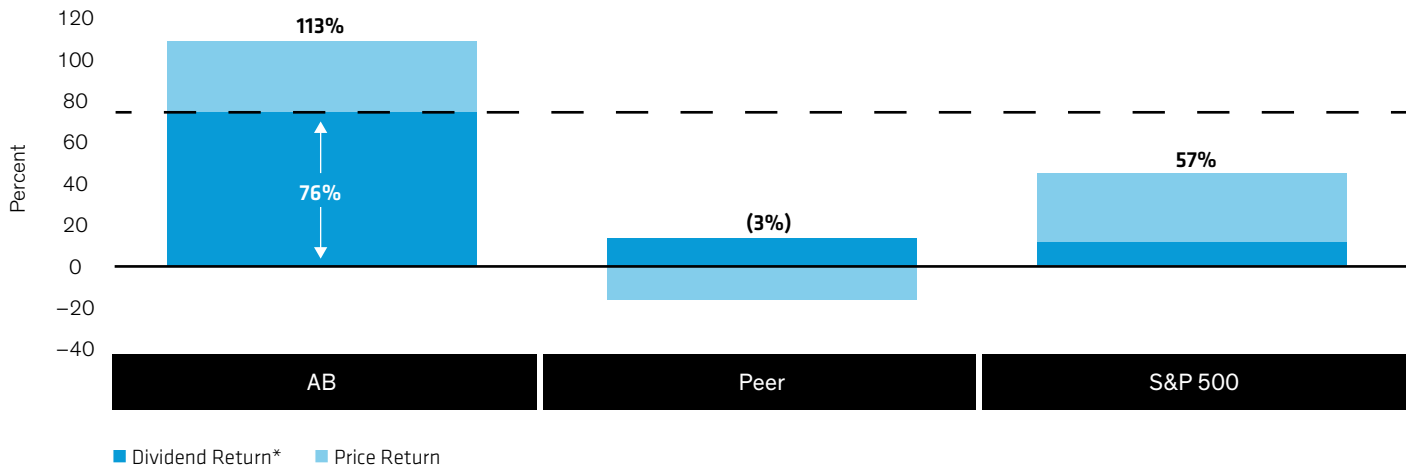
effort and an ability to have more connectivity to one's life outside the office. We have prioritized the development of our managers to be equipped with the skills needed to manage a hybrid staff with intentionality and inclusivity.

Our employees continue to work together to create a more inclusive and culturally rich workplace. Globally, our employee resource groups hosted more than 60 virtual, hybrid and in-person events on topics including childcare and career advancement. Additionally, we implemented new initiatives including: launched the HBCU Scholars program, tailored focus groups with diverse talent to gain a deeper understanding of their experiences; celebrated the Juneteenth federal holiday with volunteer events across our offices; raised awareness on antisemitism as well as anti-Asian hate; and secured our seventh consecutive 100% score on the Human Rights Campaign Foundation's Corporate Equality Index.

We know that engaged employees are more productive, collaborative and innovative, and we strive to remain a place where diverse ideas can make us better.

**TOTAL SHAREHOLDER RETURN**

Total Shareholder Return\* (12/31/2017 -12/31/2022)



Peer average includes: Affiliated Managers Group, Franklin Resources, Blackrock, Janus Henderson, Invesco, T. Rowe Price

\*Assumes distributions reinvested during 12/31/2017 – 12/31/2022 period

Source: NasdaqIR

## **PARTING THOUGHTS**

In 2022, the Board thanked Bertram Scott for his capable service. Our accomplished Board remains highly engaged, providing valuable insight based on diverse and relevant experiences and backgrounds.

As I look forward, our teams' accomplishments against our strategic initiatives in 2022 give me confidence for 2023. We are positioning the business for sustained strength while navigating rapid change in our industry by ensuring that our offerings remain relevant to our clients' changing needs. I thank you for your continued trust in our firm.

Sincerely,

A handwritten signature in black ink that reads "Seth Bernstein". The signature is written in a cursive, flowing style.

Seth P. Bernstein,  
President and Chief Executive Officer