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CORPORATE PARTICIPANTS

Catherine Cooney Burke *AllianceBernstein Holding L.P. - COO & CFO*

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

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

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 *BofA Securities, Research Division - MD and Head of the North American Asset Managers, Brokers & Exchanges Team*

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

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

William Raymond Katz *Crédit Suisse AG, Research Division - MD*

PRESENTATION

Operator

Thank you for standing by, and welcome to the AllianceBernstein Third Quarter 2022 Earnings Review. (Operator Instructions) As a reminder, this conference is being recorded and will be available for replay on our website shortly after the conclusion of this call. I would now like to turn the conference over to the host for this call, Head of Investor Relations for AB, Mr. Mark Griffin. Please go ahead.

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

Thank you, operator. Good morning, everyone, and welcome to our third quarter 2022 earnings review. This conference call is being webcast and accompanied by a slide presentation that's posted in the Investor Relations section of our website, www.alliancebernstein.com.

With us today to discuss the company's results for the quarter are Seth Bernstein, our President and CEO; Kate Burke, COO and CFO, and Onur Erzan, Head of Global Client Group and Private Wealth. Bill Siemers, Controller and Chief Accounting Officer, 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 beginning on Slide 2 of our presentation. You can also find our safe harbor language in the MD&A of our 10-Q, which we filed 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. Financial market conditions continue to be challenging in the third quarter as investors reacted to both rising geopolitical stresses and further rate increases in the face of accelerating inflation. Other than investing in cash in certain commodities, investors have experienced negative returns year-to-date. We were not immune to industry-wide pressures as we saw outflows from active equity and taxable fixed income, particularly in September when global stock markets declined by 9% or more.

In the quarter, we continued to generate organic growth in alternatives and municipals. Our realized fee rate improved by 7% year-over-year, driven by the addition of CarVal and an improving asset mix as higher fee active equities and alternatives grew organically on a trailing 12-month basis. Our institutional pipeline grew to a record $24.7 billion, up $14.5 billion sequentially, driven by the addition of a $7.5 billion target-date mandate, $4.6 billion of CarVal commitments and an additional diversified mandates.

Let's get into the specifics, starting with a firm-wide overview on Slide 4. Gross sales were $19.8 billion, down $12.5 billion or 39% from the year ago, reflecting much lower global retail demand as risk aversion prevailed in the face of volatile markets. Firm-wide active net outflows were $7.8 billion or $6.1 billion, excluding AXA redemptions. Quarter end assets under management of $613 billion declined 17% versus the prior year and 5% sequentially. An average AUM of $654 billion was down 13% year-over-year and 5% sequentially.

Slide 5 shows our quarterly flow trend by channel. Firm-wide, third quarter net outflows were $10.5 billion or $6.6 billion, excluding AXA redemptions. Retail gross sales of $13.8 billion continued to moderate from 2021's robust levels, and we saw net outflows of $5 billion or $2.8 billion, excluding AXA's $2.2 billion in passive redemptions. The macro overlay continued to drive risk-off behavior by investors amidst the third consecutive quarter of negative market returns.

Our institutional channel saw net outflows of $6.3 billion or $4.6 billion ex-AXA. Gross sales of $1.9 billion declined from prior quarters amidst weaker activity industry-wide with redemptions concentrated among a few accounts. In Private Wealth, gross sales of $4.1 billion increased sequentially and net flows rebounded to positive $800 million following tax-related outflows last quarter. Net flows now have been positive for 7 of the last 9 quarters.

Investment performance is shown on Slide 6, starting with fixed income. In the third quarter, fixed income yields in developed markets initially fell on growth concerns, then spiked as inflation remains stubbornly high. Many developed market central banks have turned progressively more hawkish and delivered on rate hikes and quantitative tightening. Most credit sector returns were challenged during the period.

Within the corporate space, high yield held up best while investment-grade corporates sold off more given their higher sensitivity to rates. AB's fixed income performance over the 3- and 5-year periods was on par with the market, though below our standards with 53% of assets outperforming over both time periods.

Many of our fixed income strategies rely on a combination of both credit and interest rate exposure, which both performed poorly in the quarter, an unusual event as they tend to be negatively correlated. Our 1-year underperformance reflected our positioning in global credit as most of our retail fixed income strategies are broader based than just the U.S. in focus. The U.S. continues to outperform making peer comparisons more challenged.

Turning to equities. Equity market volatility persisted in the third quarter as investors came to terms with the new reality of high inflation and rising interest rates and rising risk of recession. The MSCI World Index fell by 4.4% in the third quarter in local currency terms and was down by 21.9% year-to-date. In developed markets, growth modestly outperformed value for the third quarter, though both were negative and for the year-to-date period, growth underperformed with the Russell 1000 Growth Index down 30.7%, lagging the Russell 1000 value index at negative 17.8%.

While our active equities performance remains strong over the long term, with 80% of AUM outperforming over the 5-year period, our 1- and 3-year performance continued to lag due to underperformance by composites against benchmarks. Peers also struggled against benchmarks with just 19% of U.S. large cap growth managers and 30% of SMID-cap growth managers beating benchmarks year-to-date. Importantly, our retail mutual funds continued to outperform the Morningstar peer groups as 63%, 61% and 78% of our equity assets outperformed on this basis over the 1-, 3- and 5-year periods.

Factors such as profitability and balance sheet strength have not provided the typical cushion against spiking volatility because the equity correction so far has been dominated by inflation, causing buyers to demand higher discount rates. Not only has this disproportionately weighed on longer duration growth stocks, but reflation strength early in the year fueled cyclical expansion, which favored value stocks and factors such as leverage (inaudible) often, management's extrapolated gains and investors capitalized extra profits generated by the COVID-19 conditions and stimulus.

Regarding value, concerns about recession and a strong U.S. dollar, which is negative for commodities, have weighed heavily on certain value sectors of the equity market. So the bulk of negative market performance this year is due to the PE multiple compression rather than earnings erosion. Our teams continue to focus on identifying management teams that are executing well in a challenging environment. As attention shifts to earnings delivery, we believe we're well positioned.

Now I'll review our clients, beginning with Retail on Slide 7. Gross sales of $13.8 billion in our Retail channel declined by $11.8 billion over last year's record levels and $3.5 billion sequentially, reflecting buoyant active equity sales last year and third quarter's torpid market sentiment across both fixed income and equities. Net outflows were $5 billion or $2.8 billion, excluding expected AXA redemptions of passive variable annuity related accounts. The overall redemption rate was stable ex-AXA.

Taxable Fixed income net outflows improved substantially by $3.9 billion in the third quarter. Of note, American income sales were up $1 billion sequentially, generating $500 million in net inflows for that product. So the recovery inflows we saw in the first 2 months of the quarter, unfortunately reversed in September. Municipals led by our SMA Muni Tax Aware product continued to grow for the ninth consecutive quarter, bucking industry-wide outflows, a story which Onur Erzan will cover in his remarks.

Active equity snapped a remarkable period of 21 straight quarters of growth, posting net outflows of $1.5 billion. Including year-to-date 2022, retail active equity has posted 6 consecutive years of positive net flows, generating $45 billion in net AUM or 9.4% average annual growth over this period. Several flow rankings are shown in the bottom right. AB ranked seventh out of 464 in U.S. equity flow rankings with positive flows in the U.S., driven by large cap growth.

Turning to Institutional on Slide 8. Third quarter gross sales of $1.9 billion declined from prior periods in a period of muted activity industry-wide. Net outflows were $6.3 billion or $4.6 billion ex-AXA driven by a few concentrated redemptions, which reflected broader asset allocation or multi-manager portfolio restructurings. AB still retains sizable AUM with each of these clients and in some cases, is being considered for new business. Year-to-date, this channel has generated $4.6 billion of net inflows or $6.9 billion, excluding AXA redemptions.

In the quarter, we experienced record U.S. and European CRED fundings driven by Equitable, which is now funded approximately half of its multiyear $10 billion commitment in permanent capital. This was the ninth consecutive quarter of Alts/MAS inflows. Notably, the channel's realized fee rate increased by 25% from the prior year period and was up 19% sequentially and as we onboarded CarVal's higher fee rate private alternatives AUM in addition to record CRED fundings.

Our pipeline more than doubled to $24.7 billion at quarter end, up $14.5 billion sequentially, driven by a $7.5 billion custom target date mandate, $4.6 billion of CarVal commitments and additional diversified active mandates. As shown in the bottom left chart, private alternatives now represent over 80% of the pipeline's annualized fee base, resulting in a pipeline active fee rate 3x the channel average, up from 2x a few years ago.

Moving to Private Wealth on Slide 9. Third quarter gross sales of $4.1 billion were even with prior year period and up 25% sequentially. Redemptions improved relative to the tax-driven sales in the second quarter and net inflows were $800 million or 3% annualized organic growth. This is the seventh of the last 9 quarters in which Private Wealth has generated net inflows, proof that the growth strategy we articulated earlier this year is resonating.

Our mix continues to shift toward our ultra-high net worth $20 million and over clients, the fastest-growing client segment growing at more than twice the channel average. These larger clients tend to be concentrated in our New York, Los Angeles and San Francisco offices and are influenced by our pre-liquidity event planning efforts for which our pipeline remains solid. Private alternative commitments remain healthy and are up 94% year-to-date. Our proprietary direct indexing strategy grew to $1.8 billion, up 15% organically year-over-year, and the ESG portfolios of nearly $6 billion continue to resonate with our clients.

I'll finish our business overview with the sell side on Slide 10. Third quarter Bernstein Research revenues decreased by 19% year-over-year and were down 14% sequentially. Despite more volatile markets in 2022, institutions are trading significantly less amidst an uncertain environment. In particular, we saw global asset manager clients reduced trading activity in the United Kingdom and Asia favoring the U.S.

Research checks remained stable sequentially and grew year-over-year at autonomous, reflecting the strength of our brand and the value brought to clients. We held our 19th Annual European Strategic Decisions Conference in September, receiving strong client response. Our European research team ranked in the top 10 by institutional investor and we launched coverage on five global sectors this quarter, Korean Internet and Media, U.S. Restaurants, U.S. SMID-Cap Software, U.S. Consumer Credit Bureaus and Fintech Strategy.

I'll conclude by reviewing the status of our strategic initiatives on Slide 11. Long-term performance in equities remained strong, while fixed income performance moderated and near-term performance in both asset classes reflected challenging markets. Our third quarter growth was led by Private Wealth and our alternatives MAS offerings, while we continue to grow in Munis as well. Our pipeline more than doubled to a record $24.7 billion with an active free rate 3x the channel average. We launched our first two active ETFs, Ultra Short Income and Tax-Aware Short Duration Muni supported by Equitable.

Touching briefly on our financial results, which reflect the addition of CarVal, third quarter adjusted operating income declined by 27%. Adjusted operating margin was 25.1%, and adjusted earnings to unitholder distributions is $0.64 per unit declined 28% versus the prior year.

Now I'm pleased to introduce Onur Erzan, Head of Global Client Group and Head of Private Wealth to review our differentiated retail and institutional distribution platform. Onur?

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

Thanks, Seth. It's a pleasure to be with you today to share with you the key strengths that differentiate our global distribution platform known as the client group within AB. Integrated across sales, marketing, product and client service functions, this includes both our Institutional and Retail distribution teams.

The key points I wish to leave you with today are the following. We enjoy very strong global access with distinct capabilities across six unique pillars. We have delivered profitable growth across asset classes, geographies and vehicles. Building on this growth, we are investing in several high-growth conviction areas, including augmenting use of data and technology. Organic opportunities include the large insurance markets. And our platform in conjunction with our partner, Equitable is structured to deliver continued organic and inorganic growth going forward.

Starting with Slide 13. We had a wide global platform responsible for over $0.5 trillion of AUM across six continents, split relatively evenly between Institutional and Retail with local presence in all major asset management geographies across APAC, EMEA and Latin America in addition to the U.S. We have regional expertise and local coverage, key elements that enable us to deliver complete solutions to clients. For example, we have a strong competitively advantaged position in Asia Pacific, having built local businesses over several decades.

Supported by strong long-term investment performance from our tenured experienced investment teams, our global distribution platform has driven sustained organic growth in recent years, well in excess of the peer group. Active equities and alternatives and multi-asset offerings led the way. Within fixed income, the fixed-income strategies in the U.S. also have outgrown the peers.

In active equities, we have grown organically by over 4% annualized over both the 3- and 5-year period or nearly 10 percentage points above the peer group average. And in alternatives and multi-assets, our track record has accelerated in recent years to nearly double-digit annualized organic growth with both alternatives and custom target mandates contributing.

Turning to Slide 15. We believe our sustained growth has been achieved due to a set of several differentiating capabilities, including the following: Comprehensive locally market coverage owned by over 250 sales professionals that have forged strong relationships with leading global and regional intermediaries, asset owners and consultants. These sales professionals are supported by local market specialists across product and marketing. A broad investment product range, which allows us to leverage and scale relationships with key clients. Examples include our award-winning sustainable platform with global and U.S. sustainable thematic equity complemented by fixed income offerings as well.

Vehicle flexibility enables us to meet global demand and local endpoint needs. For example, we launched our OEIC range in 2019, enabling us to target U.K. markets with a local wrapper. Moving to the top right, we supplement with value-add services, including client capability building, such as our AB Advisor Institute, which provides practice management, wealth planning and wealth management expertise to our partner firms.

Our Institutional Solutions Group provides sophisticated capital markets research, strategies, tools and solutions to optimize portfolio outcomes. Importantly, AB's strong brand maintains significant awareness globally. As Seth mentioned earlier, we were recently ranked the sixth most trusted financial company by Investor's Business Daily. And the AB brand was ranked fourth in all of APAC last year in a study by Broadridge.

We continue to develop data analytics capabilities such as our newly launched digital sales desk in U.S. Retail, enabling smart client prospecting, targeting, cross-selling and servicing, utilizing our new Oculus platform. Leveraging these tools, we continue to build momentum and sustained growth in U.S. retail, a historically underpenetrated market for us.

On the next few slides, we highlight a few examples of our capabilities. Our U.S. large cap growth service provides an excellent example of our differentiated distribution capabilities. Management is stable tenured investment team with a strong long-term track record. We have expanded distribution of this globally relevant product in multiple vehicles to gain local access in diverse markets. This approach has led to 9 consecutive years of organic growth and has serviced with now nearly $50 billion of global AUM.

As shown in the table on the bottom left, our relationships have enabled us to launch multiple local vehicles with large distribution partners, enabling global penetration across these platforms. At the same time, these vehicles give us the flexibility to work with regional partners for their local markets. The bottom right shows the progression of vehicle expansion with Korea Local, U.S. retail SMA, U.S. CIT and Taiwan local vehicles all added in recent years.

The breadth of our U.S. retail footprint can be shown through the growth in municipal separately managed accounts, SMAs, across our U.S. retail platform. With over 10 consecutive years of organic growth, our Muni SMA business has grown to over $16 billion of AUM, led by Muni Tax Aware and including high-quality Muni Income and Custom Muni. The number of advisers who use these products has grown 15-fold over the last decade with nearly twice that rate of growth in the number of accounts. In fact, SMAs across asset classes now make up 37% of our U.S. retail AUM, more than 4x what they were in 2012.

Our new Custom Muni platform, which is analogous to direct index and equity SMAs, uniquely positions us with the high net worth segment of financial advisers. We are very excited about our new Custom Muni partnerships with multiple national and independent broker-dealers as well as RAs. Our newly launched AB Tax-Aware Short Duration Municipal ETF, the first potential in a series, will also help us continue to build our market share in this category. The bottom right shows the strong compound growth rates we have experienced at several of our distribution partners over this period.

Our defined contribution, customer target data and retirement income solutions provide another example of our differentiated distribution. We have grown this business organically by 15% annualized since 2011, to one which we now manage over $60 billion AUM for 29 custom target date and lifetime income clients across the U.S. and U.K. We were an early innovator in delivering an implying guaranteed income solution our lifetime income strategy celebrating its 10th anniversary, managing over $8 billion assets, including $3.4 billion in secured income benefits for more than 120,000 participants.

Our proprietary technology platform provides us with the connectivity to 10 record keepers with plan for expansion and allows us to deliver a differentiated insurer benefits marketplace featuring five insurers, including our partner Equitable. These solutions enable us to pursue strategic client partnerships with a lineup that can be used across public and private DC plans.

Specific strategic partnerships include a large state public fund for whom we manage the DC plans custom target date fund, the glide path as well as several underlying sleeves across asset classes and are now being considered for their plan's core menu with an ESG-oriented equity strategy. A large aerospace defense company, which also uses our custom target date services and has entrusted our firm with a fixed income allocation in the glide path. They are also now actively considering a custom lifetime income solution.

Across products, vehicles and geography, we are focusing our efforts and investments in growth markets. Private debt, a large market in which we recently expanded our position through the addition of CarVal is expected to grow at a low double-digit rate going forward. Insurance is an important opportunity given our well-developed capabilities with Equitable that we are investing to grow through additional third-party relationships.

In terms of vehicles, we recently launched our first two active ETFs, AB Ultra Short Income and AB Tax-Aware Short Duration Municipal, the first step towards introducing an innovative and differentiated global ETF offering, which would supplement our core capabilities. We have proven expertise in managing strategies in or similar to these categories and consistent indications of interest from existing clients for liquidity tools in this space. Additionally, the ETF will allow us to reach a wider client base over time.

We will continue to grow our U.S. Retail SMAs, as previously mentioned and we are investing in China, EMEA and U.S. Retail, all large market opportunities for AB, China being a long-term view with EMEA and U.S. Retail presenting substantial near-term opportunity to gain share.

A few words on the insurance opportunity we see. Our 40 years of experience in insurance management with significant client assets of Equitable Holdings, along with our experience managing AXA Assets positions us well to grow this business. We have over 60 dedicated experts globally who contribute to the $157 billion that we manage in this space. Capabilities span across public and private markets and include a dedicated insurance portfolio management team. We offer a service-oriented engagement with the insurance-specific solutions and analytics, client servicing and operations and reporting.

On the right side, we show examples of recent client partnerships where we have provided a range of solutions to a diverse set of institutions, including complex restructuring to optimize yields, private alternatives and custom emerging market debt. Notably, 2/3 of our recent U.S. CRED fund #4 raise was from insurers, excluding Equitable.

Finally, our structure, including our ability to leverage our partnership with Equitable and our proprietary Private Wealth business provides a strong track record of growing both organic and inorganic channels through a strong multiplier effect. We have successfully brought on multiple investment teams over the past decade and scaled them through localized relationships and vehicles and tailoring to specific channels as exemplified with CPH Capital, now our global core product.

Having grown fourfold to $13 billion AUM over the 8 years since acquisition, Global Core is now diversified across geographies with exposure in both APAC and EMEA in addition to U.S. and channels have grown across Institutional, Retail and Private Wealth. Importantly, our partnership with Equitable Holdings has enabled our Private Alternatives business to grow third-party capital by fourfold from its original seat. We look forward to growing this business further with the $10 billion that Equitable has committed to our private market strategies as well as with the additional CarVal to which Equitable has already committed $750 million.

In summary, AB has uniquely global access to diverse local markets with distinct distribution capabilities. We have delivered results, driving profitable organic growth, we are investing in high conviction, high growth areas and our platform in conjunction with our partner, Equitable is structured to deliver both organic and inorganic growth going forward.

Now I'll turn the call over to Kate, who will review the financials. Kate?

Catherine Cooney Burke - *AllianceBernstein Holding L.P. - COO & CFO*

Thanks, Onur. Let's start with the GAAP income statement on Slide 23. Third quarter GAAP net revenues of $1 billion decreased 10% from the prior year period. Operating income of $170 million decreased 39% and operating margin of 18.3% decreased by 740 basis points. GAAP EPU of $0.56 in the quarter decreased by 37% year-over-year. As a reminder, this was the first quarter, including CarVal, which added $12 billion of AUM at approximately a 1% fee rate and margins consistent with our mature private alternatives businesses. The deal remains slightly accretive to adjusted earnings in the second half of 2022 and the full year 2023.

I'll focus my remarks from here on our adjusted results, which removes the effect of certain items that are not considered part of our core operating business. We base our distribution to unitholders on our adjusted results, which we provide in addition to and not as a substitute for our GAAP results. Our standard GAAP reporting and a reconciliation of GAAP to adjusted results are in our presentation appendix, press release and 10-Q. Our adjusted financial highlights are shown on Slide 24, which I'll touch on as we walk through the P&L shown on Slide 25.

On Slide 25, beginning with revenues. Net revenues of $814 million decreased 8% versus the prior year period and were flat sequentially. Base fees decreased 7% versus the prior year period as 13% lower average AUM was driven by market declines. The third quarter fee rate of 41.4 basis points was up 7% year-over-year driven by the addition of higher fee rate CarVal based fees and by asset mix and up 5% sequentially. Third quarter performance fees of $10 million declined by $8 million from the prior year period. Given current markets, we now see full year 2022 performance fees, tracking below our prior guidance range or slightly below 2019 levels.

Third quarter revenues for Bernstein Research Services decreased 19% from the prior year period, driven by lower customer trading activity in Europe and Asia due to the prevailing macroeconomic environment. Investment gains were $10 million in the third quarter, driven by the sale of our minority investment in Next Capital Group as compared to a slight loss in the prior year period of less than $1 million.

Moving to adjusted expenses. All in, our total third quarter operating expenses of $610 million increased by 1% year-over-year and were up 3% sequentially. Total compensation and benefits expense declined by 2% from the prior year period, reflecting lower AUM-driven revenues and performance fees, offset by higher compensation ratio of 51% of adjusted net revenues as compared with 48% in the prior year period. Lower incentive compensation reflected lower AUM, partially offset by higher base compensation, driven by an increase in average headcount.

As it's typical in this time of year, in the fourth quarter, we will true up our compensation ratio to balance market conditions and the year-to-date accrual rate. Through the first 3 quarters of the year, we accrued compensation at a 49% rate comprised of 48% in each of the first 2 quarters and 51% in the third quarter. Given market conditions, which includes the S&P 500 and Barclays U.S. Aggregate both down 5% in the third quarter, we expect the compensation ratio should remain elevated in the fourth quarter of 2022.

As always, we plan to pay competitively based on our performance, given that our people are our most important asset. As a reminder, the compensation ratio is sensitive to variability in the asset mix and two, the mix due to year-end performance of performance eligible funds.

Promotion and servicing costs increased by 8% from the prior year period as T&E and sales and client-related meetings increased compared with depressed levels in the prior year period due to the pandemic, offset by lower trade execution and clearance costs. Sequentially, T&E and meeting expense declined. We continue to manage second half promotion and servicing spend to be below first half levels.

G&A expenses increased 7% in the third quarter versus the prior year period, reflecting the negative impact of a higher U.S. dollar, the addition of CarVal and continued strategic investments in growth and efficiency technology projects. For the full year, we continue to target G&A growth in the mid-single digits.

Third quarter operating income of $204 million decreased by 27% versus the prior year period. Third quarter operating margin of 25.1% was down 670 basis points year-on-year. Our margin comparisons in 2022 reflect the meaningful impact of the year-to-date market correction. Additionally, higher inflation, continuation of select growth-related investments, rebounding T&E expenses from prior year COVID-induced flows and lower performance fees are all impacting this year's performance.

As outlined in the appendix of our presentation, third quarter earnings exclude certain items, which are not part of our core business operations. In the third quarter, adjusted operating earnings were $24 million or $0.08 per unit above GAAP operating earnings due primarily to acquisition-related expenses. Amortization of intangible assets, which are included in acquisition-related expenses and our GAAP to adjusted earnings reconciliation increased by $11 million due to the CarVal acquisition. In the third quarter, we realized a onetime tax benefit of $5 million, resulting in an effective tax rate for AllianceBernstein LP of 3.1%. We continue to expect an effective tax rate for 2022 of approximately 5% to 5.5%. We continue to expect the Nashville relocation will be accretive for the full year 2022 with compensation-related savings more than offsetting increased occupancy costs.

Now we're pleased to answer your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from Craig Siegenthaler from Bank of America.

Craig William Siegenthaler - *BofA Securities, Research Division - MD and Head of the North American Asset Managers, Brokers & Exchanges Team*

So my first one is on the potential for large client reallocations next year. And this actually might be a good one for Onur given that he joined us today. But with interest rates expected to stabilize next year, can you talk about any pent-up demand from both retail and institutional investors to reallocate back into fixed income?

And also kind of a second parter, do you think your softer 1-year invest performance in fixed income could limit your ability to win these reallocations? Or will there be more focus on the longer-term track records?

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

So let me start, and then I'm going to ask Onur to add in where I'm missing stuff. But look, we -- as rates have risen and yields have become pretty attractive, particularly in credit, we are seeing smatterings of interest, both Retail and Institutional. For example, AIP, American income actually had positive flows in the third quarter, which I think is an indication of people beginning to see value in credit. So I do see the potential for more allocations. Whether that happens in the fourth quarter or the first quarter, harder to say. I probably would suspect it would be after the end of the year as we're getting close to the end now.

I think with regard to performance, look, there has been deterioration in the fixed income performance. But our clients recognize that in risk-off environments, we tend to underperform just given our heavy allocations to -- heavy allocation to credit generally. And we had a weird situation this year, which I hope doesn't reoccur and frankly hasn't in October, which is we've had rates and credit deteriorating at the same time. Typically, they have a negative correlation to one another. So the barbell we utilize in a number of our retail strategies tend to be hedged for that kind of event. This has been an unusual period. So I don't know that October's trend will continue, but that's a more normalized behavior. So it's possible. Why don't you add in, Onur?

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

Absolutely. Stabilization of rates at a higher level will be, in general, a positive for us. If I were to comment on specific channels and products in addition to what Seth mentioned, I would highlight a couple of other areas. One of our high-growth areas, as I highlighted in my remarks, is tax exempt Muni strategies. Definitely, that category will have some momentum, and that should help us both grow market share and expand the platform.

And then in terms of taxable fixed income, we believe that should help us with our Asia franchise, given a large part of our retail taxable fixed income is Asia kind of centric. And then it's a much lower scale, but LatAm retail is in other geography that was depressed this year, should benefit from that.

On the Institutional side, definitely, there will be some reallocations and definitely can help us in a couple of channels, both in insurance and pension plans. That being said, I think being precise about the timing is very hard. So we don't know when the rates will stabilize precisely and at what level. And that uncertainty will create, I think, some lack of precision in the timing.

Craig William Siegenthaler - *BofA Securities, Research Division - MD and Head of the North American Asset Managers, Brokers & Exchanges Team*

And just as my follow-up, I wondered if you had any insight into tax loss harvesting activity just given it's been such a bad year for both equities and bonds. And I guess this would happen in the fourth quarter, and it would impact equities and taxable fixed income, but any perspective on any kind of near-term flow headwinds that would be appreciated.

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

Absolutely. We have been seeing that. Obviously, the fourth quarter is where you see the bulk of the tax loss harvesting activity. It tends to be temporary. So that's the good news. But given the declines in the indices and given tax exempt and Muni indices are not immune from that, we definitely see some elevated tax loss harvesting. But that being said, as I mentioned, in most of the cases, that's a very temporary move, and that will be, in my opinion, more than offset by future flows. Again, timing is hard to predict. On a net basis, they're positive, in the short term, that will create definitely some pressure.

Operator

(Operator Instructions) And our next question will come from Alexander Blostein from Goldman Sachs.

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

I wanted to -- Onur, I wanted to start with the question for you around the insurance business. You highlighted that working with other insurance companies outside of Equitable is an opportunity you see for AllianceBernstein and obviously, with a more expanded products, including CarVal, you guys are -- should be well positioned to do that. So maybe just expand on how you're going about the strategy, what vehicles and products you're likely to utilize? And as you think about the relationship with Equitable, is that a tailwind or is it that headwind, right? Because at the end of the day, having a large insurance company and working with them side by side gives you a unique sort of knowledge base and perhaps a competitive advantage, but at the same time, they have a large equity stake in you. So which one of these things kind of went out?

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

No. Great questions. Let me start from the end and make my way through the beginning. Obviously, we think about the insurance opportunity on a global basis, and we think about it across insurance subsectors, life insurance, property and casualty and health. The good news is the space that Equitable participates in and a leader in is only a portion of the market, and that U.S. life market is quite concentrated, particularly if you focus on large annuity providers. Obviously, we would be always sensitive to any perceived conflicts, but that is only a handful of insurers and that doesn't necessarily reduce the appeal of the opportunity or the size of the addressable market.

In terms of how we are pursuing this opportunity, as I mentioned in my remarks, we created insurance dedicated capabilities from the back so that the insurance dedicated services will help us to be very catered to a liability-driven investor audience, which is different. And then when it comes to products and services, as you highlighted, we'll leverage both our alternatives platform, particularly private credits, not only AB CarVal, but the broader lending capabilities. Real estate lending being another one, which had good strength in terms of fundings in the third quarter, both U.S. CRED and European CRED.

And then finally, we are definitely working on a number of structures that makes our solutions more capital efficient for insurance balance sheets, and we have a pipeline of product opportunities that's coming. So watch us in the insurance space. It's a long-term strategy, but we will continue to focus on.

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

Great. That's very helpful. And then my second question is around CarVal, I just was hoping to get to this a little bit more given it's been under the AllianceBernstein umbrella for a couple of months now. So I guess one specific question related to the $4.6 billion in commitments that you highlighted in the pipeline, which products are those? And how should we think about translating that into fee growth? Do they bill on committed or deployed? And if it isn't deployed, I guess how are they thinking about the opportunities for putting capital to work in this environment?

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

Sure. That will be diverse across several different strategies. It includes the flagship credit value, it includes the clean energy strategies and then some of the more bespoke other add-on services as well, emerging markets, et cetera.

In terms of the funding period, we'll see. We have seen some fundings in all of these kind of strategies, but obviously, it will depend on the timing. We don't have a clear sense for how the market environment will impact that. It's a little bit of a different thing for AB CarVal because the opportunistic distress, as you know, can be countercyclical. So it's very hard for us to be very precise. But particularly in some of the strategies like clean energy, et cetera, we expect more fundings.

Operator

(Operator Instructions) And our next question will come from Bill Katz from Credit Suisse.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

I hope this is more of a qualification, not count as a question, but part one is, just in terms of the incremental pickup in the fee rate both in the Institutional channel as well as overall. I'm guessing it's just a weighted average impact of CarVal but are there any sort of catch-up fees underneath that?

And the broader question is, as you think about your overall pipeline, which grew nicely, what's happening in terms of the deployment of that? Is that a couple of quarters as normally the case? Or is that getting elongated in any way? And I was just wondering if you could answer Alex' question in terms of when do you pay fees on the $4 billion?

Catherine Cooney Burke - *AllianceBernstein Holding L.P. - COO & CFO*

Well, thanks for the question. I'll start on the fee rate side. Look, overall, I would just say we have confidence that over the long -- over time, our fee rate is going to continue to work its way higher. What we saw here during the quarter is that we experienced a positive fee rate in all three channels. That improvement was largely driven by a favorable mix to -- with alternatives. So CarVal played a part in that, but was not all of it as well as continued relative inactive equities and outflows in some of our relative fixed income businesses.

So our view, and when you look at the institutional pipeline, is that you're going to -- we're going to get at that 3x level that Seth mentioned in terms of the active pipeline fee rate versus our institutional average. We expect that, that will be supportive over time. But we do also highlight that there could be volatility when we have those larger low-fee DC mandates. This pipeline does include that $7.5 billion targeted mandate that was added in the third quarter. And as that one works its way through, that, that will ultimately show up in the quarterly rate.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Okay. Just a follow-up to that. If you could just answer a question in turn, sorry to belabor it, but just the pipeline itself in terms of the sort of timing in terms of deployment, just given what seems to be a bit of a slowdown in decision-making. And then on the CarVal, the $4 billion, are those paid -- fee rates -- base fee rates paid on committed capital, deployed capital and is there an opportunity for any performance fees?

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

Yes. In terms of the timing, as said, and Kate mentioned, in the remarks, we typically take a 9- to 12-month view. When we look at the nature of the pipeline, we are optimistic about the fourth quarter, but it's hard to be certain. So there's definitely uncertainty. In terms of the CarVal products, all of the CarVal products tend to have performance fees. And that's why you need to factor in both the management fees and the performance fees.

There was another question in terms of the nature of the funding, et cetera, I guess it will depend on the underlying asset class in terms of the deployments. For instance, we'll work with Equitable on the U.S. residential mortgages. As you know, that was one of the synergies with Equitable. That's the $750 million. So we have relatively high kind of certainty on that, but it will again get deployed based on the market opportunities. So those are a few highlights I would give you in terms of the nature of that. And it's a pretty diverse pipeline. The one thing I haven't mentioned in my previous remarks is also the kind of the CLO part of the overall platform.

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

But Bill, just to be clear, the fees kick in on funding for the most part.

Operator

(Operator Instructions) And our next question will come from John Dunn from Evercore ISI.

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

Right. Maybe just to extend a little bit, the global distribution piece. Can you give us the state of the conversations of advisers in each of the different major regional intermediary market?

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

Nature of the advisers in terms of how the nature of our distribution partnerships that -- interpret the question?

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

Trying to get it more like how the conversations are differing in each of the major intermediary market.

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

By region, so the color by region. Yes. So let me try to tackle that by geography. U.S. Retail, we touched on it. Obviously, the tax loss harvesting and thinking about the asset reallocation is a big trend. We continue to see continued interest in short-term duration, taxable fixed income as well as Muni strategies and then some advisers actually find the entry point for the equity strategy's attractive. Again, it's very slightly by distribution platform. So it would vary. And then alternatives is, I think, a secular trend that said, I think we have seen a little bit of slowdown looking at the markets.

In Asia Pac, given some of the challenges also with the Chinese equity market, et cetera, it has been a tough market environment. Majority of Asia Retail tends to be income-oriented. That is -- Asix ex-Japan. Definitely, that interest kind of continues but there is a little bit of a wait and see to make sure the rates stabilize before people jump back into very attractive yield towards kind of strategies. Japan, obviously, the yen weakness kind of drives interest in U.S.-denominated assets. We definitely benefited from that in addition to our strong presence in equities in Japan. And although it slowed down on a relative basis, I think the interest seems to be still relatively strong in Japan.

EMEA and LatAm probably are the most challenged kind of geographies, EMEA given the proximity to Russia, Ukraine station, et cetera, I think it has been -- sales levels have been more depressed. And I don't think there has been a major kind of team that I would call out at the product level other than a little bit of the depressed risk-off kind of environment and not to mention some of the government changes, that's centrally in multiple markets like U.K. and Italy. LatAm similar, a lot of changes in administration, risk-off environments. And given those are also high emerging markets and fixed income buyers, I think they've been on the sidelines.

So all in all, global trend is typically risk off, stay on sidelines, stay on the short end of the duration curve and provide or stay liquids or have dry powder, that's how I would characterize.

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

Very helpful. And then can you just talk about the outlook for replenishment of the unfunded pipeline? And what's your -- are you at a point now where you guys can maintain a higher level relative to the past?

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

I mean that's very difficult to predict, but we believe in the strength of our client franchise and the capabilities we highlighted in my presentation. There are a lot of large U.S. pension plans. I mean, can be another retirement mandates is where possible. But very hard to give a very precise number.

What I can tell you is that given the product mix we have and the fee levels that Kate have highlighted, I think the revenue contribution will definitely be attractive to our starting point, particularly outside retirement, but it's hard to be very precise on the AUM.

Operator

(Operator Instructions) And we'll take our next question from Dan Fannon from Jefferies.

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

Was hoping to talk a little bit more about CarVal and the performance that they've been generating and thinking about it in some of their flagship strategies, if you could help kind of put some numbers around that or rankings to kind of get a sense of how that's tracking? And then again, the future kind of pipeline and opportunity, maybe the biggest buckets that you see in terms of future fundraising in terms of styles, that would be helpful as well.

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

Well, let me start, and Onur may jump in again. But they've raised roughly $2 billion -- a little over $2 billion since our announcement or actually since our closing. And so we're very pleased with that -- I'm sorry, since announcement. And so we're very pleased with the pace, although as Onur alluded to, it's got to be a more challenging market generally out there just given the volatility that the world is seeing.

We've been out marketing our energy opportunities fund to a pretty broad reception, and it's really the first time we're utilizing the AB Institutional sales force as part of that. So far, that's been beneficial to us. We've gotten more looks than CarVal had experienced in the past, but it's still early days in that process. We're also kind of setting up for their more distressed strategies as we move forward, there's interest in doing it, and I think that's important, and it's a traditional strength of the firm and the order performance has continued to be in line or outperforming most of their competitors. So I think on balance, the story is good there.

I think finally, just to recognize that the mandate with Equitable on resi mortgages is in the process of being funded. And further, that opens the way for more opportunities with our insurance clients. So on balance, it's early, but we're pretty favorable on where we stand.

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

Yes. The only add is the retail angle. Historically, AB CarVal has been more geared towards the Institutional channel. I think one of the synergies we really like in the combination is our ability to go deeper into retail high net worth channels, a, through our proprietary Private Wealth channel, but also more broadly through our intermediary partners. We are working on a couple of more retail high net worth oriented products, leveraging our product structuring expertise, BDCs, REITs internal funds, and we'll test the market with those kind of extensions. So that opens yet another venue, which wouldn't be captured in the institutional pipeline typically. So we are optimistic about the long-term prospects there.

Operator

And we do have time for one more question. And we'll take our last question from Bill Katz from Credit Suisse.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

So two. Can you give me a sense of where you are in terms of alternative penetration into your wealth management platform today? And what do you think that, that ratio can get to?

And then just given your commentary about all the growth initiatives as you look ahead, one of the themes coming out of this quarter certainly is the challenge of balancing lower revenues against sort of ongoing spend. How should we be thinking about expense growth rate into 2023?

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

Yes. Thanks. Bill. Let me take the alt penetration question. To confirm, you're interested alt penetration, our Private Wealth channel, right? Yes, absolutely. Our alternatives platform in the Private Wealth channel currently represents roughly 10% of the AUM. We had very strong momentum even without any fundings to CarVal. So year-to-date, the alternative raises have been up 95%, and 45% of our AUM is with the accounts that have private alternative exposure.

So I think it's a very solid story for two reasons. One, we demonstrated that we can offer alternatives as part of our asset allocation to our client base. And as we add more larger accounts, if you look at the inflows, net flows, more than 3/4 comes from $20-plus million accounts, which tend to be higher buyers of alternatives. And given there's still runway with the clients that didn't invest in alternatives and 10% being probably lower than what you could think about as steady state, there's a lot of runway there. In some of the third-party channels, some of the third parties advocate for asset locations up to 30% into alternatives. So if you can think about that, the runway is quite significant for us.

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

And just to clarify, I said energy opportunities, I meant clean energy with regard to CarVal.

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

And one clarification on my side on the performance fees. Majority of the CarVal strategies have performance fees, it might not be 100%.

Catherine Cooney Burke - *AllianceBernstein Holding L.P. - COO & CFO*

So then I'll just follow up quickly on the balance between our strategic investments and our expense management. So we are going to continue on the path of trying to be very disciplined overall in our discretionary spending and cost base while continuing to sort of balance those strategic initiatives and capitalizing on our existing strengths. And then when we're looking more is on the margin of where we can reduce spending in the near term without jeopardizing those long-term goals.

So we have a number of technology investments, for example, underway to support our growth initiatives in terms of supporting our infrastructure, such as in the insurance space, as Onur were talking about, or the Muni SMAs, multi-asset offering, ETF launches, all of those, we think, are good long-term capabilities. And so we're going to continue to support that but we've always maintained a very strong cost discipline and looked also to try to leverage automation of things like moving our systems to the public cloud.

So for the full year, we're going to continue to target a G&A number in the mid-single digits. And then on the promotion and servicing side, you've seen us have some discipline there. We do expect it to continue to decline sequentially here in the second half of the year as compared to the first, above still prior year high -- or prior year because of the pandemic impact.

And ultimately, as we look ahead, it's going to be and through the year-end about balancing those priorities as well as rewarding and retaining that -- both that talent team -- the talented teams that we have. So I think that that's the best answer I can give you that we're going to continue to be very disciplined in our approach, but we are not going to be shortsighted in supporting our longer-term initiatives.

Operator

Thank you. There are no further questions at this time. Mr. Griffin, I'll turn the call back to you.

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

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