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PRESENTATION

Operator

Thank you for standing by, and welcome to the AllianceBernstein Fourth Quarter 2018 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, the Director of Investor Relations for AB, Ms. Andrea Prochniak.

Andrea L. Prochniak - *AllianceBernstein Holding L.P. - Senior VP & Director of IR*

Thank you, Jessa. Good morning, everyone, and welcome to our fourth quarter 2018 earnings review. This conference call is being webcast and accompanied by a slide presentation that's posted in the Investor Relations section of our website, www.alliancebernstein.com.

Seth Bernstein, our President and CEO; John Weisenseel, our CFO; and Jim Gingrich, our COO, will present our results and take questions after our prepared remarks.

Some of the information we 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 1 of our presentation. You can also find our safe harbor language in the MD&A of our 2018 10-K, which we filed this morning.

Under Regulation FD, management may only address questions of a material nature from the investment community in a public forum, so please ask all such questions during this call. We're also live tweeting today's earnings call. You can follow us on Twitter using our handle @AB_insights.

Now I'll turn it over to Seth.

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

Good morning. Thank you for joining us today. Despite the impact of the year-end market dislocation on both industry flows and assets, we maintained strong underlying momentum across our business in 2018 and further strengthened our competitive position.

Our full year results reflects the differentiation of our revitalized active equity platform, which attracted $10.8 billion in net new flows and our ability to continue scaling and commercializing our business. Our sales mix across channels was our most diverse in years. And finally, our results reflect our ongoing commitment to disciplined expense management as demonstrated by the 140 basis point expansion in our adjusted operating margin in 2018 to 29.1%.

Now let's get into the specifics. Starting with the firm-wide overview on Slide 3. A new gross sales of $93.8 billion in 2018 were up $15 billion or 19%. About $10 billion of the increase came from first quarter CRS fundings. The rest was from robust client activity, particularly in active equities. Total firm-wide net flows were negative $8.1 billion for the year. We experienced 2 large CRS redemptions totaling $14 billion in the first half and significant annual outflows from both institutional and retail fixed income products. Because of these net outflows and the steep fourth quarter market decline, we finished 2018 with lower assets under management. However, average AUM was up due to our first 3 quarters of strong market performance.

We also reported January 2019 AUM this morning. We were pleased to see the markets rebound during the month and a return to positive net flows in our Retail and Private Wealth channels, but these were eclipsed by outflows from institutions, which resulted in total firm net outflows for the month.

Slide 4 shows our quarterly flow trend by channel. The left side chart show the outsized impact of lumpy CRS sales and redemptions on firm-wide institutional flows in the first half of the year. On the right, you can see the spike in fourth quarter Retail redemptions due to the market correction. In Private Wealth, fourth quarter outflows were caused by several one-off factors, including year-end tax-related trading.

Slide 5 is our annual flows view. Again, the left side chart shows the net effect of this year's lumpy CRS activity, predominantly in our institutional channel. Net outflows totaled $10 billion from institutions and $8 billion overall. The right side chart tells a more positive story. Despite the fourth quarter route in the markets, our Retail net flows were essentially flat in 2018 and our Private Wealth net flows were positive for the third consecutive year.

Now let's turn to investment performance beginning on Slide 6. Clearly, our near-term fixed income performance has been challenged. Given our broad portfolio exposure to emerging market debt, we were hard hit by the sustained downturn there. We've also had difficulty recovering from some early duration calls and experienced some negative currency impact as well. However, our 3- and 5-year track records remain quite strong with 90% and 89% of assets outperforming, respectively.

In equities, our investment performance bounced back in the fourth quarter as large strategies like strategic equities and large cap growth returned to outperformance. Our percentage of outperforming active equity strategies increased for every time period to 71% for the 1-year, 62% for the 3-year and 83% for the 5-year.

Slide 7 and 8 provide more insight on Retail fixed income and equity investment performance. The fixed income table on Slide 7 reflects the impact of our emerging market exposure on 1-year fund performance. EM debt and high yield were most affected, but long-term track records remain in top 2 quartiles. Our income portfolios are holding up well. European Income is top half for 1 year, top quartile for the 3-year and top decile for the 5-year. Mortgage income remains at first percentile for the 1 year and increased sequentially to 13th for the 3-year. And AB income remains top decile for 3- and 5-year periods.

In equities, on Slide 8, our emerging markets, concentrated international growth and International Value equities funds continued to underperform, yet every other fund on this slide ranked in the top 2 quartiles across all time periods. These include Concentrated Global, Global Low Vol, Global Core and Large Cap Growth, which are all top quartile. Solid long-term track records like these were a major driver of our outstanding 2018 active equity flows.

Let's move on to our client channels beginning with Retail on Slide 9. We continue to invest in reshaping the firm's retail product offerings to better serve our clients. Our business is stronger and more diversified, and we have become more adept at both anticipating client needs and innovating in a timely basis to meet them. The cumulative effect of this methodical long-term strategy is evident in our 2018 Retail business mix and results.

The top left chart shows our success in reducing our dependence on volatile Asia ex Japan fixed income market. We've taken our share of fixed income gross sales from 3 quarters of total global sales 2 years ago to 41% today. In Asia ex Japan, fixed income has gone from 89% of gross sales in 2016 to 53%.

Our positive mix shift is clear from the bottom left chart. Of the 25 funds that attracted net flows of $100 million or more in 2018, 19 of them were equity, alternative or multi-asset services and half of those funds have been launched, relaunched or redesigned in the past decade.

We are particularly proud of how our combination of relevance and outperformance in active equities has attracted inflows. Our full year retail active equity gross sales of $25 billion were up 72% and our active equity net flows increased to $8 billion from $2.8 billion, that's in a year where total outflows from U.S. active equity mutual funds increased by 33% to nearly $260 billion and we keep innovating for clients. Today, we have partnerships with 13 distributors for our various FlexFee funds, which have total AUM of about $145 million, excluding seed capital. Momentum continues to build as we educate the marketplace about this new mutual fund pricing structure.

Now I'll talk about institutional on Slide 10. Here, as in Retail, we're experiencing the benefits today of the years we spent both rebuilding our active equity franchise and diversifying into the most promising long-term growth areas. The top left chart shows how active equity gross sales of $7.3 billion more than doubled in 2018. They were our highest in a decade, and our active equity net flows of $4.4 billion were positive for the first time since 2007. This represents a 13% organic growth rate against the steep industry-wide contraction.

The revenue associated with our gross sales was up 54%, reflecting our mix shift toward higher fee active equities, alternatives and multi-asset services. These services represented 85% of our $9.7 billion year-end pipeline. This bodes well for our future revenues and fee rate. In fact, $2.2 billion or 60% of our new pipeline adds in the fourth quarter alone were in active equity strategies. The balance included alternative and multi-asset like commercial real estate debt, custom alternative solutions and multi-manager fund of funds. As a result, our pipeline annualized fee base exceeded $30 million for the fifth consecutive quarter.

Moving to Private Wealth Management on Slide 11. Gross sales of $11.7 billion were our highest in 10 years, and that's excluding inflows from our very successful first half Option Advantage launch. As I mentioned earlier, net flows were positive for the third consecutive year despite the fourth quarter spike in net outflows. We added $2.4 billion in commitments to our suite of alternative and focused equity services, bringing the total to $9.1 billion at year-end, that's the bottom left chart.

We launched a new [BBC] for qualified private clients, and we're in the process of partnering with Abbott Capital, a leader in private equity investing to add a fund-of-funds offering. As we expand our higher net worth client base, adviser productivity is rising. Adviser productivity has grown at a 7% compound annual rate in the year since we began offering alt and focused equity services. And our average relationship size has increased by 6%, just in the last year.

What's more, after 2 years of flat-to-negative headcount growth, we increased our adviser base by 6% in 2018, and we'll keep growing with spring -- I'm sorry, with the spring 2019 opening of our 19th U.S. Private Wealth office in Nashville, an exciting next step for AB.

I'll finish our business overview with the sell-side on Slide 12. In the year when this industry faced one of its most disruptive events ever with the MiFID II transition and commissions continued to decline, I'm impressed by our resilience. Bernstein Research revenues were down just 2% in 2018. Fourth quarter revenues increased 11% sequentially, thanks to both the spike in U.S. volume and volatility shown on the bottom left chart and robust year-end research payments.

As I've said many times, now more than ever, sell-side research providers must deliver a differentiated offering to stay on clients' lists. That's our goal in acquiring Autonomous Research. Autonomous adds a preeminent research franchise in financial services and fintech to our platform, areas where we've historically been underrepresented. It's a step-change for us in both the U.S. and Europe in terms of analysts and stocks under coverage in a huge category by market cap. It also allows us to focus resources on new analyst hires and other promising areas around the world. In the fourth quarter alone, we hired 6 new analysts in the U.S., Europe and India, where we are building our Mumbai office. Research excellence is our firm's brand, and we're focused on successfully navigating this next phase of the evolution of this business.

I'll close by highlighting some of our 2018 accomplishments on Slide 13. 2018 was the year of progress for AB in every part of our long-term growth strategy. We continued to deliver for clients with our diverse products. We further scaled and commercialized our offering set with particular momentum in active equities, and we stayed vigilant on expenses making our seventh straight year of margin expansion. We're proud of these accomplishments and well aware of the challenges we face going forward.

Coming into 2019, our asset base is lower and the revenue outlook is uncertain. At the same time, we have the right strategy, business mix, talent and global footprint to continue delivering for our clients, which is our primary goal in any market environment.

Now I'll turn it over to John to review our financials.

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

Thank you, Seth. Let's start with the GAAP income statement on slide 15. Fourth quarter GAAP net revenues of $804 million decreased 13% from the prior year period, operating income of $199 million decreased 30%, and the 25% operating margin decreased by 490 basis points. GAAP EPU of $0.63 compares to $0.84 in the fourth quarter of 2017.

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

Our adjusted financial highlights are included on Slide 16. Fourth quarter revenues of $696 million, operating income of $204 million and our margin of 29.3%, all decreased year-on-year. We earned and will distribute to our unit holders $0.64 per unit compared to $0.84 for last year's fourth quarter. Lower base and performance fees as well as seed investment losses primarily drove the weaker results.

For the year, revenues increased $213 million to $2.9 billion, operating income increased by $102 million to $852 million and operating margin increased by 140 basis points to 29.1%. Adjusted EPU increased to $2.67 from the prior year's $2.30. Higher base and performance fees drove the increase in revenues, and diligent expense management drove our continued margin expansion. We delve into these items in more detail on our adjusted income statement on Slide 17.

Beginning with revenues. Net revenues decreased 10% for the fourth quarter but increased 8% for the full year versus the same prior year periods. Base fees for the fourth quarter decreased 3% due to lower average AUM in the Retail and Institutional distribution channels but increased 7% for the full year due to higher average AUM across all 3 distribution channels. For the full year, total average AUM increased 5.1% and the portfolio of fee rate increased 1.4%.

Fourth quarter performance fees of $35 million compared to $80 million in the same prior year period. Our securitized asset strategy generated $23 million of performance fees in the fourth quarter 2017 compared to none in 2018. Our middle market lending and U.S. concentrated growth strategies generated lower performance fees in the fourth quarter 2018 compared to the same prior year period. For the year, performance fees increased by $91 million to $196 million. Real Estate Equity Fund I generated $91 million in performance fees in 2018 and is in the process of liquidation. In addition, the liquidation of Financial Services Opportunity Fund I was completed in 2018 and produced $36 million in additional performance fees compared to the prior year.

Fourth quarter and full year revenues for Bernstein Research Services decreased 3% and 2%, respectively, from the same prior year periods due to the delay in revenue recognition resulting from the unbundling of research payments from trading commissions and a shift to lower fee electronic trading. The impact of foreign exchange translation also contributed to the fourth quarter decline but partially offset the revenue decline for the full year period.

Fourth quarter and full year investment losses include a $6 million realized loss on the sale of a seed capital investment in a private equity fund for which we approximately -- we received approximately $30 million in cash proceeds from the sale. We liquidated this investment since it no longer met our product development objectives for our clients.

Fourth quarter and full year other revenues increased 26% and 27%, respectively, as a result of higher dividends and interest earned on our broker-dealer investments. Interest expense increased $8 million for the fourth quarter and $27 million for the full year as a result of higher interest paid on broker-dealer customer balances because of the higher interest rates.

Moving to adjusted expenses. All in, our total fourth quarter operating expenses of $492 million decreased 2%. Full year operating expenses of approximately $2.1 billion increased 6% for the prior year. Total compensation and benefits expense decreased 2% in the fourth quarter driven by lower incentive compensation but increased 9% for the full year due to higher incentive compensation. Base compensation, commissions, fringe and other employment costs were all higher in both the fourth quarter and full year periods compared to the prior year.

Compensation was 45.2% of adjusted net revenues for the fourth quarter versus 42% in the prior year period. The full year 2018 comp ratio was 47.5%, up 40 basis points from the prior year. Of the 40 basis point increase, 30 basis points is attributed to employee transition costs relating to the Nashville relocation. The 40 basis point increased full year EPU by $0.03 and lowered the full year operating margin by 40 basis points. Going forward, we expect to continue to manage to a comp ratio that will not exceed 50% in any given year. Given current market conditions, we plan to accrue compensation at a 49.5% ratio in the first quarter 2019, with the option to adjust accordingly throughout the year if market conditions change.

Fourth quarter and full year promotion and servicing increased 6% and 4%, respectively, versus the same prior year periods due primarily to higher marketing expenses resulting from retail advertising campaigns in Asia, Europe and the United States. For the full year, increased trade execution and transfer fees were partially offset by decline in T&E.

G&A expenses decreased 4% both in the fourth quarter and the full year versus the same prior year periods due to lower errors, portfolio servicing fees, occupancy and more favorable foreign exchange translation, which was partially offset by higher professional fees and technology expenses.

The third quarter 2017 included net nonrecurring charges of $15 million: the net of a $20 million outsourcing termination charge, and a $5 million Asia VAT refund credit. Fourth quarter operating income of $204 million decreased 25% versus the same period of the prior year. Of the 25% decline, 8% is attributed to the higher comp ratio in the fourth quarter of 2018. Although the 2018 full year comp ratio is only 40 basis points higher than the prior year, the fourth quarter 2018 comp ratio was 320 basis points higher than the fourth quarter of the prior year when a larger full year true-up resulted in a much lower comp ratio for the quarter.

Full year 2018 operating income of $852 million increased 14% from the prior year as revenue growth outpaced expense growth. The incremental margin for the full year 2018 was 48%. Fourth quarter operating margin of 29.3% was down 590 basis points year-on-year, of which 320 basis points is attributed to the higher comp ratio discussed earlier.

Our full year 2018 operating margin of 29.1% was up 140 basis points from 2017 and represents our seventh consecutive year of margin expansion and our highest in 10 years. These outstanding results demonstrate our continued diligent focus on expense management and the operating leverage of our business.

You may have noticed that our fourth quarter adjusted operating income was $5 million higher than our GAAP operating income. We excluded 5 items from our adjusted results that are not part of our core business operations. First, we recorded a $1 million noncash real estate charge for GAAP reporting to true-up our sublease assumptions relating to a prior period real estate write-offs. Second, we recorded a $3 million GAAP P&L credit to reduce the contingent payment liability related to a previous acquisition. Third, we excluded $2 million of acquisition-related expenses. Fourth, we recorded a $3 million reduction in the fair value of our investment in the third-party provider of financial market data and trading tools. Finally, we deconsolidated certain seed investments in our adjusted results that we have consolidated for our GAAP reporting. Consolidating these investments decreased operating income by $2 million but did not affect net income or EPU.

For the year, adjusted operating income was $852 million, was $27 million higher than our GAAP operating income. Here, we excluded 6 items of note: $22 million in consolidated variable interest entities' operating income, $3 million long-term compensation mark-to-market losses, $7 million in real estate charges, $2 million in acquisition costs, $2 million in contingent payment P&L credits and a $4 million write-down in our investment in a third-party provider of financial market data and trading tools. In addition, $35 million of performance fees earned on Real Estate Equity Fund I are included in our adjusted operating income but are excluded from GAAP operating income since they were recorded as an increase to partners' capital in the opening balance sheet at the start of 2018 as per the implementation rules for the new revenue recognition standard. These non-GAAP adjustments are outlined in the appendix of this presentation.

The full year 2018 effective tax rate for AllianceBernstein LP was 5.6%, about as expected. Going forward, we expect the effective tax rate to remain around this level based upon our current forecasted mix of domestic versus foreign pretax earnings.

I'll finish with an update on our planned corporate headquarters relocation to Nashville. Our relocation is going very well and proceeding faster than we originally expected. We're in the process of securing additional temporary office space, which will facilitate the acceleration of our relocation so that the majority of the positions in [scope] will be relocated to Nashville prior to the completion of our new permanent office building currently scheduled for the fourth quarter of 2020.

We incurred $10 million of net transition cost in 2018, as expected. Nearly, all are employee related and are included in a comp ratio calculation and the composition accrual. Of the $10 million full year transition costs, approximately $5 million was recorded in the fourth quarter. As a result of the acceleration, we now anticipate both higher transition costs and higher expense savings related to the Nashville relocation. We currently estimate that we will incur a total transition cost of approximately $155 million to $165 million for the period 2018 through 2024 when our New York City building lease expires. These costs include employee relocation, severance, recruitment and overlapping compensation and occupancy costs.

Over the same period, we expect to realize total expense savings of about $190 million to $200 million, which exceed the total transition costs. However, we will incur transition costs prior to the realization of expense savings. We currently anticipate that the largest reduction in EPU during the transition period could be approximately $0.07 in 2019, about $0.03 above the amount incurred in 2018. We still expect to achieve breakeven or possibly a slight increase in EPU by 2021 and an EPU accretion for each year thereafter.

Beginning in 2025, once the transition period has been completed, we estimate ongoing annual expense savings of approximately $70 million to $75 million, the result of a combination of occupancy, compensation, fringe benefit and consulting-relating savings. Our estimates for both the transition costs and the corresponding expense savings are based upon our best current assumptions of employee relocation costs, severance, recruitment, overlapping compensation and occupancy costs. Our estimates for both the timing of incurring the transition cost and realizing the related expense savings are based upon our current relocation implementation plan and the timing for the execution of each phase. The actual total charges eventually recorded and the related expense savings realized and the timing of the EPU impact are likely to differ from our current estimates as we implement each phase of our headquarters relocation.

And with that, Seth, Jim and I are pleased to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Michael Carrier from Bank of America Merrill Lynch.

Shaun Francis Calnan - *BofA Merrill Lynch, Research Division - Associate*

This is actually Shaun Calnan on for Mike. Just a couple of questions on flows. Can you guys discuss your thoughts on what drove the elevated fixed income outflows in the quarter? Do you guys believe it was driven by the weaker short-term performance or more just environmental factors and seasonality?

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

Let me take that. I think it was more the environment than short-term performance, but -- and I say that principally because particularly in investment-grade credit, a lot of those flows -- outflows were a function of unattractive FX hedging costs that a number of our offshore clients were experiencing rather than necessarily performance shortfalls in performance of investment grade. On the other hand, in our Retail services, which were global multi-sector, such as Global High Yield and AB High Income, we do have an exposure to emerging markets, and we did see underperformance there given our overweight earlier in the year, which did cause us to underperform relative to some peers. So I do think it was more accentuated by a broader environment that was more negative.

Shaun Francis Calnan - *BofA Merrill Lynch, Research Division - Associate*

Okay, and then you guys have had really strong flows in equities and alternatives and a part of that is the strong performance. But even versus strong performing peers, you guys are doing better. So we're just wondering if that's more the product lineup or distribution mix that's driving this.

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

Well, I think it may be both. I think we have really spent a lot of time and effort creating a product suite that speaks to our clients. We had 16 services -- equity services with net flows greater than $250 million last year. And so I think that they were -- the services were meeting specific client needs. Additionally, we have been, as you know, been investing in optimizing our U.S. and EMEA sales forces. And I believe there's been benefit from that as well.

Operator

Your next question comes from the line of Dan Fannon from Jefferies.

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

Just looking into next year, you highlighted that assets are starting at a lower point or I should say this year. Can you talk about noncomp expense and kind of how you're thinking about the environment or budget for this year versus, say, in previous periods?

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

Sure. This is John. Actually, I think we've made lot of great headway on keeping the noncomp expenses under control. They are actually down year-over-year for the full year when you look at the combined promotion, servicing and general -- G&A expenses. Going forward, our goal is to try to keep those -- the rate of increase of those -- both of those lines around the rate of inflation.

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

Great. And then from performance fees, obviously, very difficult to predict. But just thinking about the setup for 2019 and if there are any high watermarks or how we should think about just generally the level versus kind of previous periods as you've obviously been growing your alternative

AUM? But just want to get a sense of how we should kind of think about the contribution in '19 maybe versus previous periods or other things you could help us in terms of getting some level around that.

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

Sure. In 2018, we were -- helps in the performance fees, the over $195 million or so in performance fees we had, about $130 million of those fees came from 2 funds that are currently in liquidation. So Real Estate Equity Fund I, we realized about $91 million of performance fees and then over $30 million came from Financial Services Opportunity Fund I. The liquidation of that fund was completed in 2018. Real Estate Fund I is still out there, but it's been mostly liquidated. So we would just expect some minimal fees from that in 2019. So I think when you look at the $195 million, you have to really take off the $130 million. And then, of course, it's really a function of what's going to happen with the markets going forward. The strategies are -- all varies. Some of them have high watermarks that you have to pass and then you get a certain percentage of the upside above that, some others don't. But again, it just varies strategy by strategy.

Operator

Your next question comes from the line of Bill Katz from Citi.

William R. Katz - *Citigroup Inc, Research Division - MD*

Okay. Just wondered if you could sort of spend a little time on the institutional dynamics. In your AUM release, you sort of noted that you had outflows in Institutional in January, but yet your pipeline at the end of year was rather strong. So I was wondering if you could talk to maybe the interplay between what's sort of driving the nice pickup in the pipeline versus what we're sort of seeing on a tactical basis in the month of January.

James Andrew Gingrich - *AllianceBernstein Holding L.P. - COO of Alliancebernstein Corporation*

Bill, in terms of January, it's always -- I hate to even comment on a month-to-month basis. But I think, the dynamic was not unlike what we saw in the -- in 2018 in the sense that we had a couple of large fixed income outflows that really accounted for the bulk of what we saw in January. Outside of that, the trends were quite similar. And to your point, the level of activity that we're seeing, be it in equities or alternatives continues to be quite strong. The -- and what's encouraging, I think, when you look both at what's been coming into our institutional business over the course of, say, over the last 3 quarters of the year where the fee rate was nearly twice what our overall average fee rate was in the book overall and then you look at the pipeline and the average fee rate is well above 2x our existing book, I mean, that's a very encouraging trend when you think about both the breadth of activity, the type of support that we're getting from consultants and the average fee rate. It's all positive.

William R. Katz - *Citigroup Inc, Research Division - MD*

Okay, that's very helpful. And then you'd mentioned in the private clients a new sort of fund-to-fund opportunity. So sort of wondering how quickly that gets launched? And what kind of scalability you could foresee as you look out over the next 1 to 2 years, maybe back half of this year and 2020?

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

Bill, it's Seth. We are working with Abbott Capital to do a private equity fund-to-funds vehicle. Abbott's focus is on middle market, which fits nicely with our focus of our middle market lending business, both of which we target capacity for our private client group. I think it's too early for us to forecast what we think the take-up will be because we haven't sold this sort of service before. So I would refrain from guessing. But we're hopeful that this will resonate with our clients.

James Andrew Gingrich - *AllianceBernstein Holding L.P. - COO of Alliancebernstein Corporation*

And Bill, I would just see it as, again, one more step in a continuing evolution of how we're positioning our private wealth business as we target a higher net worth client than maybe that we've served historically. And it's going to be -- if you look at how we have progressed in terms of the development of our alternative and focused equity services in that business, it's just another brick in the wall.

William R. Katz - *Citigroup Inc, Research Division - MD*

Okay. And if I could just squeeze maybe one more in. So as you think about your commentary that you're running a little bit ahead of time in terms of the pacing of the cost saves associated with the relocation and sort of pushing -- putting aside the elevated upfront transition cost, could you give us an update on sort of what you are thinking about in terms of the long-range margin opportunity? Obviously, you're bumping up already close to that 30% near-term target. How should we be thinking maybe long term once you get through some of these cost savings? And just assuming reasonably benign markets, I know that's a big assumption.

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

Well, again, Bill, it's John. So as we talked about that, we expect to return to breakeven or slightly positive in 2021. And from that period, the savings continue to build each year, but it's not until you get to 2025 when the transition period ends. At that point, we're looking at basically expense savings in $70 million to $75 million a year. So I think you can just take that number, and there you'll see the impact on the margin from that.

Operator

Our next question comes from Robert Lee, KBW.

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

I guess, my first question would be in the Private Wealth. I mean, I noticed the 6% increase in the number of advisers. If I'm not mistaken, it may be the highest, biggest increase in a number of years. So if you maybe just -- I'm assuming maybe that was just a larger recruiting class. Can you maybe talk a little bit about what's driving that and kind of how you see that progressing and how you're kind of thinking of that for those new advisers hitting kind of run rate production?

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

Sure. We have -- as Jim was saying, as we revised the suite of products, services that we offer our private clients, we are beginning to see greater productivity out of the advisers. I think the adviser productivity was up 7% year-over-year. And so we also thought it was as we are beginning to gain more and more confidence in our ability to penetrate in higher income brackets, we thought that we should be growing the adviser force carefully. And so we've been increasing the size of our incoming classes, and we dedicated personnel to accomplish that, and we're beginning to see -- we've seen very good classes who are diverse, they're engaged, and they're taking their seats in our offices around the country. So we want to continue growing it carefully. Part of that is finding the right people. And I think that's really all I can say in that regard.

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

Okay. And as a follow -- I know it's still very early days for the fulcrum key and it seems like you've had some success and you got new distributors and some early sales. Do you have any sense that in those channels where you try to sell the products that it's being additive to overall gross sales versus maybe cannibalizing existing sales? I mean, how are you -- again, maybe it's too early to tell, but what's your experience so far?

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

We are pleased with the progress. I think we've said all along this was going to take an awfully long time because in part, we were appealing to slightly different segments of the marketplace. So I think it's too early to determine whether it's cannibalization. I don't think so because this is appealing to people with model portfolios and others. I think it's important to recognize that most of our clients have at least in their non-IRA portfolios a lot of taxable gains that they don't want to recognize. So I don't think this is really arising from people moving out of existing. But we think it's been additive, and -- but we think the process is a slow one. And we just want to manage people's expectations around it, but the take-up from distributors has been very reassuring.

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

Okay, great. Just maybe one last one. I mean, you've talked about and clearly, you've had a positive mix shift with new sales in pipelines and some higher fee strategies. If we were to look at 2018 fourth quarter and maybe even a little bit of first quarter, do you have a sense or a number you maybe could share of what the organic revenue growth would have looked like relative to kind of just a flow picture?

James Andrew Gingrich - *AllianceBernstein Holding L.P. - COO of Alliancebernstein Corporation*

Well, again, in terms of the year -- let me answer in terms of the year. I think the arithmetic is pretty straightforward. Fee rate grew 1% and then you can look at what the AUM change is year-on-year. And it's really the sum of those 2 that's going to be over time our organic revenue growth rate.

Operator

Our next question comes from Alex Blostein from Goldman Sachs.

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

On the research business, can you talk about the pipeline that you are seeing specifically outside the U.S. -- in U.S. and Europe? And what sort of -- how do you plan to expand the number of stocks that are being covered and add additional resource in that business?

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

We are seeing a pipeline outside the U.S. that's similar to what we're seeing in the U.S. in terms of improved mix. I think that's what you're asking?

James Andrew Gingrich - *AllianceBernstein Holding L.P. - COO of Alliancebernstein Corporation*

Could you please repeat the question because you just...

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

Yes, sure. We just wanted to get a sense of the pipeline and the reach outside the U.S. And how many more analysts that you plan to add going forward in 2019 and extend the coverage?

James Andrew Gingrich - *AllianceBernstein Holding L.P. - COO of Alliancebernstein Corporation*

Well, the business is, as we note, we're in the process of adding analysts really around the world, both U.S. as well, as you mentioned, in Europe and in Asia. Those Asian hires are going to be in both Hong Kong, Singapore and India. I think that, that is just a continual process of that business to continue to build out the overall headcount.

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

Understood, okay. And last one, any technological improvements or investments that you are planning going forward like are you trying to build in in-house? Or are you trying to outsource from a third party? Just want to get a sense as to how are you thinking about it for this year and next year?

James Andrew Gingrich - *AllianceBernstein Holding L.P. - COO of Alliancebernstein Corporation*

I think our -- if you're talking about our overall technology spend?

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

Sorry, can you repeat the question?

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

Yes, sorry. Just wanted to check on what are the technological improvements or investments are you thinking for 2019 and 2020. And are you trying to build things like internally or trying to purchase it from like going for a third-party outsourcing?

James Andrew Gingrich - *AllianceBernstein Holding L.P. - COO of Alliancebernstein Corporation*

I think that we do all of the above. Where it makes sense, we will develop in-house; where it makes sense to use third-party software, we use third-party software or similarly in terms of using onshore and offshore and nearshore resourcing. It is an ongoing strategy across all of our businesses to continue to digitize. There has been a whole series of examples. For example, in our fixed income business, the development of efforts like ALFA or ABBYY or in our U.S. Retail business the SIMON application. There are a host of those types of examples of things going on in our business where we are looking to work smarter and more efficiently in everything we do.

Operator

(Operator Instructions) Your next question comes from the line of Bill Katz from Citi.

William R. Katz - *Citigroup Inc, Research Division - MD*

Okay, just a couple of follow-ups. It's actually one follow-up, one request. On the follow-up, just as you think about January, I'm sort of curious of the behavior that you're seeing in terms of the snap back in January. Can you talk about maybe on the Retail and private client side where the demand is by asset class or by geography?

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

Let me start and people may add in. With regard to January, we reported AUM this morning, as you know, of $538 billion. That was up 4.2%. That increase was due to market appreciation partially offset by total firm-wide net outflows. But by channel, what we're really seeing is improved retail taxable fixed income flows. And the outflows, as I mentioned, really were more institutional in nature. And active equity remains in positive flow.

James Andrew Gingrich - *AllianceBernstein Holding L.P. - COO of Alliancebernstein Corporation*

And you asked about geographically, Bill. I'd say in retail the trends have been positive globally. So we've seen good traction in Asia ex Japan. We've seen a more positive or constructive situation in the U.S. and so that includes Global High Yield and American Income.

William R. Katz - *Citigroup Inc, Research Division - MD*

Okay. Just one request. We certainly appreciate all your disclosure. To the extent you could further break out your costs associated with the relocation somewhere either in the press release or the supplement, I think, would help investors get to sort of the core earnings power, core margin improvement because it takes a little bit of work to try and get there.

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

Bill, it's John. So maybe I can give you a little bit more info there just with regards to 2019. So as I said, we expect 2019 the impact to EPU to be about $0.07. And that impact is going to be split between increased occupancy costs as well as increased costs on the headcount or human capital side. And the human capital piece tends to flow up into the comp ratio. So we expect the impact or the pressure on the comp ratio from the human capital piece to be about 40 basis points. And I think of the total $0.07, I would say that probably maybe just around 1/3 or slightly more than 1/3 of that will flow through occupancy and the balance would be in that 40 basis points that would flow into the comp ratio fee and capital cost.

Operator

There are no further questions at this time. I turn the call back over to management for closing remarks.

Andrea L. Prochniak - *AllianceBernstein Holding L.P. - Senior VP & Director of IR*

Thank you, everyone, for participating in our conference call today. If you have any follow-up questions, feel free to reach out to the Investor Relations team. Thank you, and have a good day.

Operator

This concludes today's conference call. You may now disconnect.
