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PRESENTATION

Operator

Thank you for standing by and welcome to the AB's Second Quarter 2017 Earnings Review. (Operator Instructions)

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. Please go ahead.

Andrea L. Prochniak - *AllianceBernstein L.P. - SVP and Head of IR and Corporate Communications*

Thank you, Cam. Hello and welcome to our second quarter 2017 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.abglobal.com. Seth Bernstein, our new President and CEO; John Weisenseel, our CFO; and Jim Gingrich, our COO will present our financial 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 second quarter 2017 Form 10-Q, 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 L.P. - President & CEO*

Good morning everyone and thank you for joining us. I'm happy to be here with you today hosting my first AB earnings call. Clearly I've joined AB at an exciting time. The strategy the firm has pursued over the past several years is both compelling and bearing fruit, which you can see in the results so far this year. Investment performance is strong and getting better across a diverse product suite.

Active net inflows were $6.6 billion in the second quarter and $8.5 billion for the year-to-date, which equates to a 4% annualized organic growth rate. Second quarter adjusted revenues grew at nearly twice the pace of expenses in the second quarter, allowing us to increase operating income by 20% and expand our margins by 270 basis points year-on-year. And we grew adjusted earnings per unit by 26% year-on-year to $0.49. These are great results that any CEO would welcome, reflecting hard work and commitment of the AB's 3,400-plus employees around the world. I'm proud they are now my colleagues and I'm excited to do my part going forward to build upon this strong momentum.

So let's get to the results. Beginning with the firm-wide overview on Slide 3. Total gross sales for the quarter were more than $20 billion, up 11% from last year's second quarter and 7% from the first quarter of this year and our highest since the second quarter of 2015. Net inflows of $4.7 billion represents $6.6 billion in active inflows I just mentioned, partly offset by $1.9 billion of passive outflows. This is obviously a huge improvement from net outflows of $200 million in the first quarter, when active inflows of $1.9 billion were more than offset by passive outflows of $2.1 billion. Year end -- period end and average AUM were up versus prior periods on the back of strong market appreciation during the quarter.

Moving to our quarterly flow breakout by channel on Slide 4. Each of our client channels contributed to this quarter's positive flow picture. I'd like to begin with Retail on the top right, which is our most significant channel by revenue. Retail gross sales were at record levels again this quarter, fueled largely by ongoing strength in Asia, ex-Japan fixed income, where we have a preeminent franchise. Net inflows of $3.2 billion doubled sequentially. Our Institutional channel rebounded from last quarter's historically low activity levels; that's the bottom left. Gross sales of $4 billion rose 60% sequentially and net inflows of $1.2 billion returned to positive territory.

For Private Wealth, on the bottom right, gross sales of $2.9 billion were up 21% year-over-year and flat sequentially. Net inflows of $300 million compared with $100 million last quarter and $200 million one year ago.

Now I'll discuss AB's investment performance during the quarter with some adjustments to our presentation, which begins on Slide 5. Here you'll see that we're now showing a 5-quarter trend in percentage of outperforming assets to quarter end for the 1, 3 and 5-year periods for both fixed income and equities. A few things are clear from this slide. First, the long-term investment performance of our fixed-income team is just outstanding, with excellent 3 and 5 -year track record. Second, the investment performance of our equity service is not only quite solid, but trending upward. Our 1, 3 and 5-year performance numbers are all better than a year ago.

On Slides 6 and 7, we'll now show performance and ranking in the respective Morningstar categories for an array of U.S. 40 act and Lux Retail Fund that represent large or focused strategies for us. Slide 6 underscores the strength of our retail fixed-income platform. All of our strategies on this Slide rank in the top 2 quartiles for the 3-year period and 6 are top decile. On Slide 7, we show how competitive our equity investment performance has become across the board. Top-decile performers for multiple periods include U.S. Thematic and emerging markets growth in Lux and U. S. large cap growth in 40 Act. From singling out equities and fixed income here, I'll add that our multi-asset and alternative strategies are also doing very well. Our 5-star rated emerging markets Multi-Asset Lux Fund is ranked top quartile since its June 2011 inception. Gross sales are $1 billion for the year-to-date period. And our All-Market Income Fund, which will hit its 3-year anniversary in December is ranked in the first percentile since inception performance. While I know it by reputation, now that I'm here, I'd have to say I'm quite impressed by the caliber of our investment teams across all asset classes.

Now let's talk about client channels beginning with Retail on Slide 8. There are two attributes of AB's Retail business I want to highlight. One, a leading position we enjoy in Asia, ex Japan, a market I believe will continue to enjoy the fastest secular growth in the world. And two, AB's global product set, which is much broader and more competitive than I've realized. These two factors have been critical drivers to our impressive Retail momentum. Year-to-date gross sales of $27 billion are up more than $8 billion or 45% versus last year's first half. And net flows have been positive every month this year, totaling $4.8 billion for year-to-date compared to last year's $1.7 billion. As you can see from the top left chart, we've been a huge beneficiary of the rising tide in Asia, ex Japan, fixed income. Industry-wide Retail Bond Fund sales are up more than $10 billion year-to-date through May, or nearly 70% compared to the same period in 2016. In Global High Yield, sales were up more than 120%.

But unlike where we were 5 years ago, Asia fixed income is not our only Retail growth story. We've also built a significant global multi-asset business in the past 2 years. In the second quarter, gross sales of our Discretionary Investment Management and Emerging Markets Multi-Asset funds each doubled sequentially and were two of our largest contributors to total retail sales for the quarter. Year-to-date, they brought in a combined $2 billion in net flows, second only to Global High Yield. Our separately managed -- I'm sorry, our U.S. separately managed account business has also grown quickly, thanks to the strength of our municipal bond activities. Assets are nearing $10 billion.

Clients wouldn't be putting their confidence in AB, if it weren't for the years we've spent investing to broaden our product set for clients, not to mention both building and restoring our long-term track records. As the bottom left chart illustrates, AB's U.S. 4 and 5- star funds as a percentage of all our rated funds has grown from 28% in 2009 to 53% today. By assets, it's 85%.

The move in Lux is even more impressive. Our percentage of 4 and 5- star funds has more than doubled to 74% and represents 94% of AB's total rated asset. So it's no surprise that these top-ranked funds are among the highest in their categories by net flows.

Now moving on to Institutional on Slide 9. After a very slow start to the year, we were pleased to see both fundings and new pipeline additions increase in the second quarter. Every region contributed to the 60% sequential increase in gross sales. And we grew our pipeline by $400 million or 10% in the quarter, that's the chart on the top left. Even more important, the estimated fee base of our pipeline increased by 26%, the effect of more adverse and a higher fee additions during the quarter. Today the average fee rate on our pipeline is the highest it's been in years. As you can see from the bottom left chart, at quarter end, 82% of our pipeline assets were in equity, alternatives and multi-asset strategies versus 18% in fixed income and passive. In fact, equities and alternatives account for 8 of our 10 largest mandates in our pipeline, including 4 commercial real estate debt funding commitments totaling more than $800 million.

By delivering on our strategy to launch new products that speak to our clients and build strong track records across asset classes, we've been regaining credibility and momentum with institutional clients and consultants. Just look at the notable pipeline adds on the right side of this slide. Of our 5 largest strategies, 3 of them, Commercial Real Estate Debt, Select U.S. Equity and Global Strategic Core Equity are services we couldn't even offer clients 5 or even 6 years ago.

In equities, our RFP activity is up [24%] so far this year from the first half of 2016. Of particular note, Emerging Markets Debt and Equity RFPs are up a combined 62%. But let me be clear, there are still considerable challenges in the Institutional business for us and the industry at large. Fundings remain well below last year's levels, fee pressures continue to be intense and both the migration of active to passive and the trend of more plans taking active management in-house continues. But even in this environment, I feel very good about AB's platform and competitive position.

Now I would like to talk about Private Wealth Management on Slide 10. I know this industry very well and I'm acutely aware of how fragmented and commoditized it can be. To stand out, private wealth managers need to be distinctively positioned in the market and implement investment solutions differently. As a long-time Bernstein private client, I've long appreciated the breadth and power of the solutions approach and the firm's ability to excel in areas like portfolio tax management. What I didn't fully appreciate, however, is what this business has accomplished with its strategy of introducing upmarket services to strengthen the solutions model, to build upon existing client relationships and form new ones, and open up parts of the market where Bernstein hadn't historically fully participated. These targeted services are the deepest expression of active management. They leverage our skill in managing active, highly- concentrated strategies and can help us optimize outcomes in a client's overall portfolio.

The bar chart on the left shows how quickly targeted services commitments are growing. They're up 50% year-on-year in the second quarter of this year to $5.5 billion and year-to-date commitments have already exceeded our full year 2016 total. The role the strategy plays in the momentum of our overall business is unmistakable.

Total Private Wealth gross sales in the first half of this year have been our highest since 2008 and our average new relationship size has grown 12% versus last year. As competitive and regulatory pressures increase, we enjoy a reputation among our clients [as of a] long-time fiduciary and a provider of differentiated solutions. That is a very good place to be.

I'll wrap up our businesses with the sell- side on Slide 11. Unlike the Private Wealth business, I had no direct experience with Bernstein Research Services before I came to AB. All I knew was it stood well above the crowd in the quality and differentiation of its research product. Now that I'm here, I'm learning there's much more to the story. Yes, Bernstein's calling card is research, but over the years this business has also built a leading U.S. agency trading platform and broadened its global presence in both research and trading, even as others have retrenched or retreated entirely. As a result, Bernstein is well positioned today. We have a diversified global business and a unique product at the time where competition for research dollars is intensifying in both the U.S. and Europe's post MiFID implementation.

In these challenging market conditions, Bernstein's revenues declined in the quarter, but that's no surprise, since we derive 2/3 of our revenue from the U.S. where both trading volumes and volatility have been trending toward new lows. Indeed the VIX actually hit a 10-year low in the second quarter. These conditions underscore the importance of our strategy of investing to remain a leader in research quality. Five new analysts launched industry coverage for us in the second quarter, 2 each in the U.S. and Europe and 1 in Asia. And we've hired 2 new analysts here in the U.S. to broaden our macro offering, an economist and portfolio strategist. We've maintained our top rankings in independent industry surveys. The latest U.S. survey named us #1 for both quality of analyst service and greatest knowledge of companies and industries, in each case for the 14th year in a row. And for the electronic trading capabilities we've built, have put Bernstein in the #1 spot for both electronic trading quality and electronic trading service for the third straight year. Finally, this quarter brought more proof that Bernstein's strategy to globalize our research and create trading capabilities is the right one. We generated double digit year-on-year revenue growth in Asia and we ranked #1 for providing alpha generating ideas and insights and # 2 for highest quality analyst service in an annual independent survey in Europe.

Slide 12 summarizes the progress we've made in the quarter in executing our long-term growth strategy. I feel fortunate to inherit an organization that's on the right track and gaining momentum and each day I grow more confident in AB's strategy. We're demonstrating every day our ability to create and manage investment services, both within and across asset classes that delivers differentiated return streams clients want and they can't replicate. We've done the heavy lifting in building out a suite of competitive services across multi-asset alternatives, equities and fixed income. Now we are intensifying our focus on engaging clients and consultants.

Finally, while improving investment performance and delivering services that speak to clients, will drive stronger net flows, increasing profitability necessitates a continuous and rigorous focus on expense management in a world of low returns and constant change. By continually finding new efficiencies, we can enhance our competitive position and more important, deliver a greater share of the output we generate to our clients, that's always our main priority. These are the objectives that AB is focused on for years, in areas where I know I can take us further. It's an honor to be part of AB and I'm looking forward to seeing what we can accomplish from here.

Now I'll turn it over to John for a discussion of our financial results. John?

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO and SVP*

Thank you, Seth. Let's start with the GAAP income statement on Slide 14. Second quarter GAAP net revenues of $802 million increased 10% from the prior year period. Operating income of $163 million increased 14% and the 18.1% operating margin was 90 basis points lower. GAAP EPU of $0.43 compares to $0.40 in the second quarter of 2016. As always, I'll focus our remarks from here on our adjusted results, which remove the effect of certain items that are not considered part of our core operating business. We base our distribution to unitholders upon our adjusted results, which we provide in addition to and not as substitutes for our GAAP results. Our stated GAAP reporting and a reconciliation of GAAP to adjusted results are in our presentation's appendix, press release and 10-Q.

Our adjusted financial highlights are on Slide 15. Compared to the same prior year period, second quarter revenues of $649 million increased 7%. Operating income of $162 million increased 20% and our margin of 25% increased 270 basis points. We earned and will distribute to our unitholders $0.49 per unit, up 26% versus the $0.39 for last year's second quarter. Higher base and performance fees combined with nearly flat non-compensation expenses, primarily drove the improvement. Revenues, operating income and margin all increased from the first quarter, due to higher base and performance fees, combined with a lower comp ratio for the compensation accrual. We delve into these items in more detail on our adjusted income statement on Slide 16.

Beginning with revenues. Second quarter net revenues of $649 million increased 7% year-on-year. The 9% increase in second quarter base fees compared to the same prior year period is due to higher average AUM across all 3 distribution channels and higher fee rate realization, reflecting a mix shift from lower-to-higher fee products. Second quarter performance fees of $15 million compared to $1 million in the same prior year period resulted from higher performance fees earned on our Luxembourg-registered Select Absolute Alpha Fund. This equity long-short fund has an annual fee calculation period ending in May and generated approximately $12 million in performance fees in the second quarter this year, but did not generate any performance fees in the same quarter of the prior year as a result of less favorable market conditions. Second quarter revenues for Bernstein Research Services decreased 5% year-on-year, due primarily to lower client trading activity in the U.S. and Europe, which was only partially offset by higher activity in Asia. A stronger U.S. dollar also contributed marginally to our decline in European revenues.

Second quarter net distribution expenses of $11 million compared to $6 million in the same prior year period, and the increase resulted from increased Retail Fund sales in Asia, resulting in higher promotion payments, new placement fees paid for our Commercial Real Estate Debt Fund and our new Onshore Emerging Asian Income Fund launched in Taiwan.

Second quarter other revenues of $28 million and interest expense of $6 million both increased by $4 million from the same prior year period. The increase in other revenue was driven primarily by higher dividends and interest earned on broker-dealer investments, while the increase in interest expense resulted from higher interest paid on broker-dealer customer balances.

Moving to adjusted expenses. All in, our total first quarter operating -- excuse me, all in, our total second quarter operating expenses of $487 million increased 4% year-on-year. Total compensation and benefits expense increased 4% year-on-year, with higher severance, partially offset by lower incentive compensation. Compensation was 49% of adjusted net revenues for the second quarter of this year compared to 50% for both the same period last year and the first quarter of this year. With year-to-date adjusted revenues up 7%, we believe it was appropriate to reduce the comp ratio in the second quarter rather than wait until later in the year, as we've done in the past. The 100 basis point reduction in our comp ratio in the second quarter from the 50% ratio in the first quarter, added approximately $0.02 to our second quarter EPU. Currently, we plan to accrue compensation at a 49% ratio for the second half of the year, absent further clarity as to the full year's revenue and compensation requirements for our business. Promotion and servicing expenses declined 2% year-on-year, driven primarily by lower T&E, but increased 13% sequentially, due to an expected seasonal increase in marketing spend for private wealth client meetings and the annual Bernstein Research Strategic Decisions conference. G&A expenses increased both 1% year-on-year and sequentially, due to higher technology consulting fees.

Second quarter operating income of $162 million increased 20% from the prior year period, as revenue growth outpaced expense growth. The second quarter incremental margin versus the prior year period was approximately 60%, reflecting our continued diligent expense management. Excluding the comp ratio benefit, the incremental margin was 46%. Second quarter operating margin of 25% increased 270 basis points year-on-year, or 170 basis points after excluding the 100 basis point benefit gained from the lower comp ratio.

Through our efforts to continue to manage our cost base diligently, we identified additional opportunities to further consolidate our New York headquarters and Tokyo office footprints. During the second quarter, we vacated additional office space to market for sublease, which resulted in us recording a $21 million real estate charge for GAAP reporting to generate ongoing annualized occupancy savings of $5.5 million beginning in 2018. In addition, we plan to vacate an additional floor at our New York headquarters during the third quarter this year to market for sublease. As a result, we expect to record an approximate $17 million real estate charge for GAAP reporting in the third quarter to generate $3.6 million of ongoing annualized occupancy savings, also starting in 2018.

Our estimates for both the real estate charges and corresponding expense savings described above are based on our best current assumptions of the cost to prepare the properties to market, the length of the marketing periods, market rental rates, broker commissions and subtenant allowances and incentives. We expect the actual total charges eventually recorded and the related expense savings realized will differ from our current estimates as market conditions change over time.

You may have noticed that our second quarter adjusted EPU was $0.06 higher than our GAAP EPU, while our adjusted operating income was $1 million lower than our GAAP operating income. These differences are primarily due to the exclusion of the following 3 items from our adjusted results that are not part of our core recurring business operations.

First, as discussed earlier, we recorded a $21 million real estate charge, primarily resulting from vacating an additional floor at our New York headquarters and marketing it for sublease. Second, we recorded a $4 million non-cash gain on the exchange of software technology we developed for an ownership stake in a third-party provider of financial market data and trading tools. Third, we consolidated certain seed investments for GAAP reporting which increased operating income by [$80 million], but has no effect on net income or EPU. Therefore, we deconsolidated the seed investment funds for our adjusted reporting, resulting in lower adjusted operating income. All of the non-GAAP adjustments are outlined in the appendix of this presentation.

Finally, the second quarter effective tax rate for AllianceBernstein LP was 6.3%, about as expected. We highlight these points and offer sequential quarter comparisons on the next slide of this presentation as well. 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 William Katz from Citigroup.

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

Maybe you could start with the discussion on compensation, I appreciate the update on the accrual. So sort of stepping back Seth, maybe have a little bit more time to sort of understand the business and maybe put to in comparison to your peers. The comp rate is significantly higher than where some of your key peers are and even if you adjust for, I think, the sell-side business, I think that that's probably reasonably true as well. How do you start thinking about that ratio looking out beyond 2017? Is there a meaningful opportunity to sort of "normalize" that ratio?

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

Thanks Bill for the question. I think there is the intention of normalizing that ratio over time. That ratio will normalize with the continuing improvement in investment performance and flows, and frankly, our continuing focus on managing our own cost structure. And I think given breadth of different services that we've successfully sold into our client channels this year and the change and improvement in the mix from a revenue perspective, it gave us confidence to actually reduce, [as you indicate], the comp to revenue ratio in the second quarter rather than later in this year for an adjustment, which is what our normal course practice is and will continue to do, but maybe I'll just turn to John, if there is anything additional to add.

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO and SVP*

Bill, I would just add there that we spoke in the past that we believe there is definitely operating leverage in the business. I think we've demonstrated it this quarter with the high incremental margins that I mentioned during my comments. So as revenues, if they continue to increase, we do hope to -- as we have done in previous years -- leverage that comp ratio down somewhat. Last year we came in at 48.5%, which was actually down from the prior year. So I think what we're seeing right now is that year-to-date basis with the revenues up 7%, with the markets higher, our net flows are positive $4.5 billion year-to-date basis, effective fee rate on the portfolio is up 140 basis points. We feel confident at this point in the year and we've also accrued, compensation expense is actually up about $33 million or 5.5% on a year-to-date basis. So at this point, we feel very comfortable with lowering the rate at this point in the year. As Seth said, we'll have to see how the rest of the year pans out. And as I said, we expect to accrue it at 49% right now for the balance of the year and as we get into the year and the revenues start to crystallize and we are able to determine what our compensation needs are by business, we'll see if potentially we can do better than that. But right now I would -- we're looking at 49% for the second half of the year.

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

Okay, thank you. And then sort of a follow-up. When I look at the Institutional business, so I appreciate things bounced back very nicely and your mandates and pipelines are up et cetera. But when you gave some of the statistic, I think, that 8 of your 10 largest mandates within the pipeline were I think commercial real estate. That number in our view is a relatively small number. So I guess, the broader question is, is there an opportunity here to really scale some of this performance, or is the targeted services philosophy is more limiting in terms of an incremental absolute level of flows?

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO and SVP*

No I think there is additional opportunity to leverage the services. I think the targeted services, of course, are in the private client segment of the business, but more broadly institutionally, most of the strategies that are actually in our largest fundings by this year are not in capacity [constrained] -- significantly capacity constrained services. So in fact, we're seeing broader breadth across both fixed income and equities, as well as in multi-asset and alternatives. So I'm not particularly concerned that we're seeing concentrations in more capacity-constrained strategies.

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

Yes, I would just add, Bill. I mean, just even tying your first and second question together, I think we've been pretty transparent that we've been making investments to build out a range of services, including in the alternative space, equities and the like. And the -- while the private client has been a major piece of helping us build those businesses up, we are seeing increasing traction in the institutional world as well and that's starting to be reflected in the pipeline and in the fee rate that you see in the pipeline.

Operator

Your next question comes from the line of Alex Blostein from Goldman Sachs.

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

Question around MiFID II. Obviously the deadline is approaching pretty quickly here. So I was wondering if you could spend a minute on how the pricing discussions are going. I know, you mentioned they are encouraging, but assuming a kind of flattish volume environment comparable to kind of 2017, how are you guys thinking about the implications for Bernstein revenues heading to 2018?

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

Thanks. There is no doubt that MiFID II creates some added pressure on the sell-side revenues, but we believe Bernstein is well positioned in situations where firms are deciding to call their list of research providers. Our research and trading capabilities are distinctive and conversations with clients to date, so far has suggested that they recognize that value of our offering and are willing to get -- and are not willing to give it up. So in our view, we may ultimately be a winner, but I think it's too early to draw any conclusions on the topic.

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

Got it, fair enough. And then second question around AXA and the equitable spin. So as we, I guess, kind of approach that how should we think about implications for AllianceBernstein ownership by AXA and kind of that structure the way it stands today, and I guess more importantly, the assets that you guys are currently managing for AXA and how that could evolve with the equitable spin?

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

Well, as you know, we're in a quiet period. So we can't speak specifically about AXA's intentions. From our own conversations with them, however, they've been very clear from AXA's perspective that they want to maintain the tenor of the relationship. As you probably know that we manage about $120 billion for them, which is I think around 1/4 or a little less than 1/4 of our total assets, but they constitute I think around 5% of our total revenues. But there has been no expression on their side and we've certainly talked about it specifically in Paris, any interest in reducing their commitment to us. They continue to be a very supportive provider of seed capital for new services. And I think, importantly, our relationship with the U.S. business that is the subject of the spin will actually in many ways be much closer. They are two blocks down the street and the role we can play in there, or our combined business activities is relatively more significant. So it's too early to determine whether there's meaningful growth there, but I would certainly say to you that we have no expectation that there will be diminished in their commitment to us as a client as a consequence of this transaction.

Operator

Your next question comes from the line of Craig Siegenthaler from Credit Suisse.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - Global Research Product Head for the Asset Management Industry*

Asian retail sales activity can be quite volatile, especially in the retail channel. And we've actually seen this experience in your own results over the last few years. Can you just comment on how sustainable that current organic growth is and also are the sources generally broad based and diverse across both geography and distribution platforms?

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

Well let me start and I'm going to turn it over, I think, to Jim to help me, because I'm new, although I was just in Taiwan and Hong Kong and Tokyo a couple of weeks ago and it's an incredibly impressive business to see in person. You're absolutely right, sales particularly of credit products have been very volatile for the industry in general and they've been volatile for us. But what is really encouraging is the mix of the business that we're beginning to sell is widening. I mentioned earlier our multi-asset businesses are diversified, our Discretionary Investment Management product, as well as Emerging Markets Multi-Asset or MI as I affectionately call it, have both really seen strong gains in revenues. And as you know, multi-asset products tend to be stickier in their persistence than other products, but Jim perhaps you may want to add?

James Andrew Gingrich - *AllianceBernstein Holding L.P. - COO*

No, I think you're capturing it well Seth. I think we tend to look at how that part of the world trends over the long haul rather than quarter- to-quarter, because as you said, Craig, on a quarter-to-quarter basis, the numbers can be -- you can't see significant moves one way or the other, but the long-term trend and if you look at the growth that we've had broadly in that region over the long term it's been quite positive. I would say, as Seth just noted, if you look at our year-to-date results in the region, it's quite different than it was 5 or 6- years ago, where if you looked at that part of the world 5 or 6-years ago, our AUM and our gross sales and our flows were largely concentrated in two funds, that being our Global High-Yield Fund and our American Income Fund. Those are still two very important funds, but if I look at gross sales year-to-date in that region, nearly half of the sales are coming from equities, multi-asset products, or other fixed income products, other than those two funds. So it's our ability to broaden out and diversify our participation in the region is really encouraging and so that's also a major contributor to what you're seeing year-to-date.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - Global Research Product Head for the Asset Management Industry*

And as my follow-up, I just wanted to dive a little deeper into MiFID II. Do you expect to see any spillover in either the U.S. or Asia's buy-side firms adopt pricing disclosures and global best practice? And also how is AB's agency trading business prepared to compete as a standalone business, if it has to compete separate from research?

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO and SVP*

Well, look, I think I'm going to punt a little bit on that question, Craig, because I think that anticipating how this regulatory change is going to ultimately impact the industry is a little tough. I do think, just echoing what Seth said, that we're remarkably well positioned. The trading platform that you just mentioned is among the largest counterparties or the largest asset managers in the world, which I think speaks to their respect for that trading platform. It is a unique and very differentiated platform and it's reflected in some of the survey results that Seth also mentioned. So the -- I have a hard time seeing folks wanting to back away from the type of capability, because they're making that choice and it includes investors who are, let's call it, quantitative or passive in nature that are making their choice strictly based on the quality of the -- of the trading execution that they get.

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

I think, Craig, it's right that different firms are going to take different positions with respect to the application of MiFID in different regions. And so I think we've spoken to a number of them, and most of them are still debating. As they do, a number have come down and said they will restrict it to Europe where it's relevant and others have said -- have been thinking otherwise. So I think it's an open question, Craig, on what the flowback of that or blowback of that could potentially be.

Operator

Your next question comes from the line of Michael Carrier from Bank of America.

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

Seth, maybe first one, just given that you've been there a few months, just wanted to get your view on the Institutional side, how some of the conversations have been going, you just given some of the turnover and the changes. And then on the strategic side, things seem to be going fairly well. Just given your perspective, your background, where are the areas that you think you are going to be focusing on to try to take AB to the next level?

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

Thanks, Mike for the question, or questions. The conversations with institutions started very quickly, as you might imagine, after the transition, because they tend to be the most sensitive to change and the change was abrupt. I would say, on balance, the conversations have been positive. What is really striking to me as a newcomer to the firm is just the depth of respect and goodwill the firm has generated and that's recognizing the volatility and performance during the Financial Crisis. That being said, the firm clearly has headwinds and had headwinds in recouping confidence among some consultants after that, but we're seeing broader application and acceptance with upgrades in key services over this quarter and last, as well as I think broad-based recognition for quality of the fixed income business by the consultants themselves. With respect to the clients, I would say the conversations have been quite positive, but many people will take wait-and-see attitudes, because change is a red flag in the money management space. I don't think that should be a surprise to anybody who just follows this industry. But I would say that the reaction of the Institutional segment generally was better than I had hoped for. And sorry, was there a second part of that question of where I wanted -- where I sort of saw the opportunities strategically to move forward?

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

Yes.

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

Sorry, I was exhausted from answering the first part of the question. But with respect to the future, I think when Peter and the management team were looking at this business post the Financial Crisis, they had to make some really fundamental decisions on where to build capabilities and how to fund it. And in my view, looking at it from the outside, it took a bold gesture to rebuild and create new services both in alternatives and in equities. And we're at the point now, I think, where those investments are beginning to come to fruition. Indeed, from my perspective, the challenge the firm has in my opinion is that we probably have more sellable services than we have the ability to sell them at the moment and we funded a lot of that growth and managing the broader business through the distribution side of the shop over those prior years. And so we really need to continue the investments that Peter and Jim were making on the distribution side to give us the incremental capabilities, both in Europe, here in the United States from a retail perspective, to follow through on that. So at this point, I think, we have a product set without major holes that need to be filled and so our focus at this point I think is blocking and tackling. So let me just stop there.

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

Okay. And then just real quick on the performance fees. Just given that it came in fairly healthy this quarter, is anything on the outlook? And I think you mentioned the Performance Fee Series Fund, just any timing, I guess, on those?

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

Let me answer the second part on the timing of the performance fees fund. There are seeded. We look to start up activity in earnest through the course of -- toward the end of this year. We've had very good reception from our critical partners. But with regard to performance fee outlook, I'd like to just turn it over to John.

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO and SVP*

Sure. So Michael, it's John. Just with regards to the performance fee funds, we wouldn't be looking to realize any material performance fees from those in the short term, because keep in mind, we have to launch them, we have to garner AUM, then we have to perform. But just in terms of our typical portfolio, as we've talked about in the past that the biggest quarters are always the second quarter and the fourth quarter, because for the funds that are on annual calculation periods, we had the Select Alpha Fund, which ended in May. That has always had the potential to contribute big, as it did this quarter; did not last year because the markets were down. And then also always the fourth quarter is always large as well, because we have things like securitized assets and a couple of other funds that will actually hit at that point in time as well. The other thing we should talk about is -- briefly here is, the LP structures, because we have real estate equity funds doing LP structures, we have middle-market lending, private credit structures in LP structures. Those structures, we cannot, under the current accounting, actually recognize the performance fees in revenue until the actual fund is either wound up or very close to being wound up and that there can be no chance that those performance fees can be called back. So we actually, to-date, and we disclosed this in the Q, but we actually have deferred revenue relating to performance fees on our balance sheet currently at about $73 million and we have offsetting compensation expense that when we realize those revenues will have to book at about $33 million. So there is about $40 million of operating income that's just sitting there deferred on the balance sheet and to the point where we actually sell more of the properties in these funds move towards the closure of these funds and get to the point where -- we actually got that cash, we were able to take that cash out of the fund. But we haven't been able to recognize it through our P&L. Some of this may get a bit easier next year, because the accounting recognition becomes a bit easier on this, but it's still not a slam dunk, you still have to pass these tests, where you look at the properties that are left or the bonds that are left in the portfolio and if you were to liquidate them, it basically 0 prices, there has to be kind of very low probability that you can call back those performance fees. So this is just -- as we talked about these businesses getting to scale, this is how you are starting to see it. You are starting to see these deferred P&L on the balance sheet at some point will work its way through the P&L.

Operator

Your next question comes from the line of Rob Lee from KPW.

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

Seth, just maybe a follow-up to an earlier question. Again understanding that it's three months in, so you're still getting your arms around things. But could you maybe -- I mean, the private wealth business I guess would be a business that maybe little near and dear to your heart to some degree, and business that has clearly turned around. So number one, if you look at that business, how do you at this point think about further opportunities to either accelerate growth there, or do you see any need to kind of change or make some changes there to accelerate growth, just kind of how do you think about the positioning?

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

Rob, thank you. It is a business near and dear to my heart. And I have been a client of it for, I guess, 15 years. So I speak as a client as well in this regard. And I'd tell you that AB has a really distinctive proposition in a world where open architecture has become the rule, rather than the exception in the way portfolios are built. And having seen it from both perspectives and recognizing as well, I think, as most people, the merits of each, I would say that the portfolio construction of what we are creating for clients has a consistency and an integrity, which others really can't match, because we recognize what bets are embedded in each of the services that build out that portfolio. And that is an unusual benefit. But it doesn't appeal necessarily to everybody and we recognize that. And -- but it is the cornerstone of what we do. It doesn't mean however that all the services we provide to our private clients need to be managed inhouse. And indeed we do offer third-party services selectively to fill out areas where we don't necessarily have those capabilities inhouse. We need to continue to focus on that and build out a suite that is really compelling to our clients and that base. I think our challenge is less in convincing people about the quality of our services, particularly when clients are aware of how cognizant we are of tax planning and how important that is in building after-tax returns, something I think many of our competitors are less focused on. But rather our ability to accelerate growth in the number of FAs we have in the field, that has been a bit more challenging to us than I think we had originally anticipated and we have to continue thinking about that. But the quality of the FAs is critical, we can't compromise on that, we have our own distinctive way of developing them and we will be methodical in building out our reach within the markets we currently are and those adjacent to where we are. So let me stop there, but I think they clearly have a bright future.

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

Maybe as a follow-up, I'm just curious, if I look at many of the alternative strategies; real estate, direct lending and others, I think as you mentioned, they've been really focused predominantly -- distributed predominantly through the private client channel, but -- why not bring those to the broader institutional market. There is obviously strong demand out there, or is it just trying to control capacity, or I mean, why not kind of broaden the client base there?

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

I just -- I'm going to pass it over to Jim for (inaudible).

James Andrew Gingrich - *AllianceBernstein Holding L.P. - COO*

I would say you are right on both counts, in the sense that, that in many cases those strategies were initially successful in our private wealth business. But as we noted earlier, just as an example, the largest addition to our Institutional pipeline this quarter was in the commercial real estate debt, which is one of those alternative services. So we are -- and over the years we've been successful and our real estate equity business in terms of raising money and the like. So I think what you're going to see in the Institutional space is an increasing diversification of those occurrences, as well as everything else that we've done. I was looking at -- if I look at gross sales this quarter in institutional, we've talked about the pipeline, but I think out of like the first of the largest items, only 2 are in our fixed income business, the other doesn't fall into multi-asset alternative list or equities.

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

And maybe this as a quick -- more of an accounting follow-up. Of the $5.5 billion of commitments in the alternative strategies, is that -- are those fee-paying at this point, or those all kind of in draw-down funds that's kind of, as do you deploy that $5.5 billion will kind of flow in over time?

James Andrew Gingrich - *AllianceBernstein Holding L.P. - COO*

As it is deployed that would be the committed capital, but as they're drawn down and put to work that's when the fees will kick in.

Operator

(Operator Instructions) Your next question comes from the line of William Katz from Citigroup.

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

Bit of a tactical question. Within the private client balances, could you give me a sense of what percentage is in cash and can you talk a little bit about what if any revenue sharing you might have to the extent rates would continue to rise?

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO and SVP*

Bill, as far as -- this is John. As far as what percentage of the $70-odd billion is cash, we really would not disclose that. And I'm sorry, your second question again.

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

Deposit [base is] kind of dynamic or revenue share. Just trying to think about -- I guess what I'm trying to triangulate toward is your dividend and interest income was a much bigger number than we anticipated on the revenue side. So just sort of thinking about that, would sort of presume that maybe there was a bit more cash in the private client business and given where rates are. Just trying to get a sense of sensitivity to that line item going forward.

John Charles Weisenseel - *AllianceBernstein Holding L.P. - CFO and SVP*

Great question. And that's in my prepared remarks, I was trying to address this and I apologize if it wasn't clear. So you're absolutely right that we did have dividend and interest in the other revenue line was up about $4 million and that's on the broker-dealer investments. We also have that the interest expense line in the P&L as well and that's the actual interest that we're paying the private clients who are keeping cash balances at the broker-dealer. And that also went up $4 million. So you can see that there was somewhat of an offset there. Typically what would happen in a rising rate environment, sometimes the expense will lag the revenue side, so we may see a bit of a bump in the revenue before we actually realize the expense in terms of raising the rates that we're actually paying on those client balances. But what you're seeing this quarter is there was pretty much an offset.

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

But over time it's largely going to be a wash, Bill.

Operator

There are no further questions at this time. I'll turn the call back over to Ms. Prochniak.

Andrea L. Prochniak - *AllianceBernstein L.P. - SVP and Head of IR and Corporate Communications*

Thank you everyone for participating in our conference call today. If you have any follow-up, AB Investor Relations will be available all day. Thanks very much.

Operator

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