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AB - Q2 2018 AllianceBernstein Holding LP Earnings Call

EVENT DATE/TIME: JULY 26, 2018 / 12:00PM GMT

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PRESENTATION

Operator

Thank you for standing by, and welcome to the AllianceBernstein Second 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 AllianceBernstein, Ms. Andrea Prochniak. Please go ahead.

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

Thank you, Holly. Good morning, everyone, and welcome to our Second 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 Second Quarter 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 Holding L.P. - President, CEO & Director of AllianceBernstein Corporation*

Thanks, Andrea. Good morning. I'm pleased with how we managed to maintain strong client momentum in many areas of our business this quarter, despite the volatility in global equity and fixed income markets. While our net flows were negative due to 1 large termination and the slowdown in the Asia ex Japan retail fixed income, our organic base fee growth was essentially flat in the quarter as we saw significant net inflows to the higher-fee strategies, including $3.4 billion into active equities. As a result, our average fee rate continued to improve by 1% sequentially and 2% year-to-date.

Let's turn to the results. Starting with a firmwide overview on Slide 3. Gross sales of $19 billion in the second quarter were down modestly year-over-year as weakness in Asia ex Japan retail fixed income more than offset gains in other retail markets and in Private Wealth. As expected, gross sales came down sharply from the first quarter, when we had $10 billion in institutional CRS fundings. Net outflow spiked to $7.7 billion, almost entirely due to the April CRS redemption we mentioned on our last earnings call. Both quarter-end and average assets under management were down sequentially in the second quarter due to the combination of net outflows and market performance and up significantly year-on-year.

Slide 4 is our channel view of flows. You can see the CRS fundings and redemptions I just described on the firmwide and institutional charts on the left. The top right chart shows a year-over-year and sequential decline in retail gross sales caused by the slowdown in Asia ex Japan. Retail net flows were negative as Asia ex Japan outflows more than offset net inflows in our other regions.

Private Wealth gross sales were up year-over-year but down sequentially. Sales of our Option Advantage product, which were $1.3 billion in the first quarter, declined as expected in the second. It's worth noting that private client retention is at a 20-year high, and net flows have been positive for 6 straight quarters.

Let's look at our outperforming assets on Slide 5. Our percentage of outperforming fixed income assets for a 1-year period fell sharply in the second quarter. Some of our larger institutional core and investment grade strategies fell below benchmark, and retail funds with significant exposure to emerging markets and U.S. treasuries dropped out of the top half of their Morningstar categories. Extreme volatility and various idiosyncratic events have made emerging market extremely difficult to navigate. And muni funds typically suffer when treasuries sell off. Importantly, our longer-term fixed income track records remain quite strong, with our percentage of outperforming fixed income assets above 90% for both the 3- and 5-year periods. Equities performance for the 1-year period was down slightly, but held steady for the 3- and 5-year periods.

Slide 6 and 7 highlight the performance of our retail fixed income and equity funds. The fixed income performance table on Slide 6 reflects the impact of our emerging market exposure in various funds, most notably Global High Yield and High Income. At the same time, every qualifying fund on this slide ranks in the top 2 quartiles for the 3- and 5-year periods. As you can see on Slide 7, our overall equity performance is excellent across time periods for a large majority of our funds. That's obviously a major driver of our broad-based year-to-date flow momentum. 11 of the 13 funds in this table that are eligible across all time periods ranked in the top quartile for at least 1 of them, and 6 ranked top quartile for all 3. Top decile standouts include European Equity for 1, 3 and 5 year and US Thematic and Global Low Vol for 3 and 5 years.

Let's move on to our client channels, beginning with retail on Slide 8.

80% of our $3 billion in sequential gross sales decline came from taxable fixed income, notably in Asia ex Japan, our largest retail business by revenue. We've seen this dynamic many times over the years. But today, we have retail product breadth to temper these dramatic swings. Our first half 2018 combined equity, multi-asset and alternative gross sales are up 62% from 2017 on a run-rate basis, and a remarkable 240% from 2016. At the same time, fixed income gross sales are pacing to be down 27% from last year and 16% from 2016.

The top left chart shows how these diverging trends that affect our business mix.

Fixed income has declined to just 45% of total gross sales year-to-date versus 64% for all of 2017 and 74% for 2016. Meanwhile, the share of combined sales of our equity, multi-asset and alternatives funds has grown to 55% from 36% and 26%. The trends are similar in Asia ex Japan, where the 55% share of equity, multi-asset and alternatives growth sales today is 5x what it was just 2 years ago. And that is on the same total sales run rate. The bottom left table lists all of our funds that have attracted $100 million or more of net flows so far this year.

Active equity funds account for 6 out of the 14. And we have attracted $3.2 billion in active equity net flows year-to-date. I'm very happy with our momentum in U.S. retail.

Net flows have been positive for 6 straight quarters and 9 of the past 10. And AUM is at a 10-year high. We're also on schedule with our FlexFee funds rollout. We now have partnership agreements in place with 9 distributors, and we're in advanced discussions with others. And we just blue-sky'd FlexFee versions Emerging Markets Growth and International Strategic Core Equity funds. We aim to get them on platforms in the next few months.

As I've said, while that will take years to get to scale, we see significant long-term growth potential in these innovative new offerings.

Now I'll talk about Institutional on Slide 9. Here, the headline is ongoing momentum in active equities. The top left chart shows a just where we are today versus just 1 year ago. Second quarter active equity gross sales of $1.6 billion were up 130% year-on-year and accounted for 40% of our Institutional total. It was our fourth straight $1 billion plus active equity gross sales quarter, and year-to-date active equity gross sales of $4.9 billion were our highest for the first half since 2008. Active equity net inflows also exceeded $1 billion for the second straight quarter. As with our retail business, the steps we've taken to restore equity investment track records and broaden our offering across asset classes have increased our relevance in the marketplace. Consultant advocacy continues to rise, and we're connecting with potential, current and even former clients like we haven't in years. That's helping our sales, revenue and pipeline mix. Our second quarter gross sales revenue was 46% higher than our 2017 quarterly average. And our fee realization rate on gross sales for the quarter was up on higher sales of active equities and real estate debt.

The growth in diversity of our pipeline suggest that this trend is likely to continue. Our $6.3 billion active pipeline at quarter end was 15% higher than our long-term average. We did have some lower-fee pipeline additions in the second quarter, which, as you can see from the chart at the bottom left, caused the total pipeline estimated fee base to decline. These include an $800 million government short duration mandate and another $800 million plus in passive fixed income and equities. Yet the mix remains skewed toward active equities and alternatives, which comprise 62% of total pipeline assets. And our pipeline fee remains well above our 5-year average and is 2.5x the rate of our current institutional business.

Moving to Private Wealth Management on Slide 10. These volatile markets create major challenges for short-term investors and huge opportunities for long-term disciplined wealth managers like Bernstein. As you can see from the top left chart, first half total private wealth gross sales were up 38% year-on-year and our highest since the financial crisis. And as I mentioned earlier, they're up 5% excluding the sales of Option Advantage overlay strategy. Client retention is at our highest for a first half in 20 years. And net flows have been positive for 6 consecutive quarters. Our efforts to appeal to a broader and more affluent client base with innovative and relevant new offerings continues to pay off. Today, we have a robust lineup of alternatives and focused equity offerings designed for more sophisticated and hands-on investors. You can see these offerings in the chart at the bottom left. We used to call them targeted services to distinguish them from our traditional integrated portfolios. But now they've become so embedded in our advice framework that we want to be more precise in how we prescribe them. Client takeup of these alt and focused equity strategies has been strong from day 1.

Deployed and committed assets now total $7.9 billion across 15 offerings, including net inflows of $1 billion year-to-date. Relationships with clients that own alternatives or focused equity strategies have grown at a 37% compound annual rate since 2016, and client retention is highest among this cohort.

With innovative new offerings, sound advice and a constant focus on enhancing the overall client experience, we completely reshaped this important business for our firm, and we are in our strongest position in years. I'll finish our business overview with the sell side on Slide 11. Bernstein Research second quarter revenues of $106 million declined 4% year-on-year and 7% sequentially. As you can see from the bottom left chart, U.S. market volatility declined sharply in the second quarter, which reduced trading volumes. However, year-to-date revenues of $220 million are down less than 1%. These are resilient results in challenging times. The investments we made to grow our differentiated research and trading platform and global footprint continue to pay off. In a recent annual independent U.S. survey, we ranked #1 in quality of analyst service for a 15th straight year. And #1 in equity electronic trading quality for the third straight year. The strong showing reinforces what we already know. In both research and trading, we simply have a better mousetrap. And we are not letting up in our global expansion efforts. In Asia, where first half revenues were up 33%, we've just launched a transport analyst and hired a health care analyst. I'll finish up with a brief MiFID II update. While we estimate that the shift of clients paying for research in arrears reduced overall revenue growth by 3% to 5% in the first half, on an adjusted basis, revenues from European unbundled clients have, in fact, improved. And their year-to-date consideration traded is up double digits. First half research payments have been rolling in so far in July. So we're comfortable with the year-to-date trends. The bottom line, we feel we're well-positioned relative to peers in a post MiFID II world.

Finally, Slide 12 highlights what we've accomplished in the quarter. Even with some year term investment performance challenges, we continue to demonstrate to clients that we can deliver long-term idiosyncratic stock-specific return streams they can't replicate themselves. We're scaling our business in the most promising asset classes and parts of the world, including alternatives and active equities and U.S. and European retail. And we, again, expanded our fee rate and margin in the second quarter. Now John will review our financial results.

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 14. Second quarter GAAP net revenues of $845 million increased 5% from the prior year period. Operating income of $190 million increased 17%, and the 22.4% operating margin increased by 430 basis points. GAAP EPU of $0.59 compared to $0.43 in the second 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 unitholders 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-Q.

Our adjusted financial highlights are included on Slide 15. Second quarter revenues of $720 million, operating income of $197 million and our margin of 27.3% all increased year-on-year. We earned and will distribute to our unitholders $0.62 per unit compared to $0.49 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 decreased from the first quarter, primarily due to the $78 million of performance fees for the real estate equity fund we recorded in the first quarter.

We delve into these items in more detail on our adjusted income statement on Slide 16. Beginning with revenues. Second quarter net revenues of $720 million increased 10% year-on-year. Second quarter base fees increased 9% from the same prior period due to higher average AUM across all 3 distribution channels and a higher fee rate realization reflecting a mix shift from lower to higher fee products. Compared to the second quarter of 2017, total average AUM increased 6.8% and the portfolio fee rate increased by 1.7%. This follows a 3.4% fee rate increase for 2Q '17 versus 2Q '16 comparable period. The 41.5 basis point portfolio fee rate for the second quarter of 2018 was our highest average -- our highest quarterly fee rate in more than 5 years and up 0.4 basis points for the first quarter.

Approximately $9 million or 20% of the $45 million total increase in second quarter 2018 base fees came from higher fee rate realization. Second quarter performance fees of $35 million compared to $15 million in the same prior year period and include $40 million earned on our Financial Services Opportunity Fund I, $13 million for Select Absolute Alpha Equity Long/Short Fund and $5 million earned on our middle market lending investment strategies. We are currently in the process of liquidating Financial Services Opportunity Fund I and expect to recognize additional performance fees for this fund during the second half of this year as we complete its liquidation.

As a reminder, first quarter performance fees included $78 million from our real estate equity fund. Second quarter revenues for Bernstein Research Services decreased 4% year-on-year on lower revenues in the U.S. and Europe offsetting higher Asia revenues and the impact of the U.S. dollar. Global revenues were adversely affected by lower fee realization due to a delay in revenue recognition resulting from the unbundling of research payments for trading commissions and a shift to lower-fee electronic trading.

Second quarter net distribution expenses decreased $2 million as a result of lower Asia retail fund sales.

Other revenues increased $8 million compared to the same prior period because of higher dividends and interest earned on our broker-dealer investments and higher administrative fees earned on our middle market lending strategies. Interest expense increased $6 million for the second quarter year-on-year from higher interest paid on broker-dealer customer balances due to interest rate increases. Moving to adjusted expenses.

All in, our total second quarter operating expenses of $523 million increased 7% year-on-year. Total compensation and benefits expense increased 10% year-on-year on higher incentive compensation and commission accruals. We accrued compensation at a 48.5% of adjusted net revenues for the second quarter this year, the same as the first quarter and versus 49% for the second quarter of last year.

If the current revenue growth continues, we may accrue compensation at a 48% ratio for the second half of the year with the option to adjust accordingly throughout the remainder of the year if market conditions change and as we gain further clarity regarding the compensation requirements for our business and the transition costs related to our corporate headquarters relocation.

Second quarter promotion and servicing increased 6% versus the same prior year period due to higher Bernstein research services trade execution expenses on higher global client trading activity and increased marketing spend for international advertising programs.

The 11% sequential increase came from the higher expected seasonal T&E and marketing spend for the annual Bernstein Research Strategic Decisions Conference. Second quarter G&A decreased 2% year-on-year due to lower occupancy expense and foreign exchange translation gains, which offset higher professional fees.

Second quarter operating income of $197 million increased 22% from the prior year as revenue growth outpaced expense growth. The second quarter incremental margin was 51% demonstrating the operating leverage of our business and our continued diligent expense management. Second quarter operating margin of 27.3% increased 240 basis points year-on-year. The sequential decline was primarily due to lower performance fees.

You may have noticed that our second quarter adjusted EPU was $0.03 higher than our GAAP EPU and our adjusted operating income was $7 million higher than our GAAP operating income. This amount represents a real estate charge recorded for our second quarter GAAP reporting relating to a change in estimate of previous office-based write-offs due to changing market conditions. This charge is excluded from our adjusted results since it is not part of our core or recurring business operations. All of the non-GAAP adjusted outlined in the appendix of this presentation. The second quarter effective tax rate for AllianceBernstein L.P. was 4%, and we currently expect an effective tax rate for the full year 2018 of approximately 5%. This is lower than previously anticipated due to a more favorable estimated mix of earnings generated in our U.S. partnership versus foreign entities.

Finally, I will conclude my remarks today with a discussion of our planned corporate headquarters relocation to Nashville and our estimates for the related transitional costs and ongoing annual expense savings.

During the second quarter, we announced our intention to transition more than 1,000 positions from our New York Metro offices to Nashville over the next several years. We believe this will afford us the opportunity to provide a favorable quality-of-life alternative for our employees and enable us to attract new talented employees to a highly desirable location, while improving the long-term cost structure of the firm. We will maintain a significant employee presence in New York City, which will remain our principal location.

We have secured temporary space in Nashville to accommodate approximately 400 employees until the construction of our new corporate headquarters is completed, which is currently targeted for the fourth quarter of 2020. Therefore, most of the positions to be relocated would occur after this date. We plan to maintain space in both our White Plains and New York City buildings through their lease expirations in 2021 and 2024, respectively.

After our current New York City lease expires, we intend to move the remaining employees to a smaller office footprint in a new building located elsewhere in New York City.

We have already relocated several employees to our Nashville temporary space, thereby beginning the transition period, which will end in 2024 with the lease expiration of our current New York City building.

During this period from 2018 through 2024, we currently estimate that we will occur total transition costs of approximately $125 million to $135 million. 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 $150 million to $160 million, an amount greater than the total transition costs. However, we will encourage transition costs prior to the realization of expense savings.

We currently anticipate that the largest reduction in EPU during the transition period will be approximately $0.04 in 2018. We expect to achieve breakeven or possibly a slight increase in EPU in 2021 and then 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, the result of a combination of occupancy, compensation, fringe benefit and consulting-related savings. Our estimates for both the transition costs and the corresponding expense savings are based on our best current assumptions of employee relocation costs, severance, overlapping compensation and occupancy costs.

Our estimates for both the timing of incurring transition costs and realizing the related expense savings are based on our current relocation implementation plan and the timing for 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.

Having a larger office footprint in Nashville and a new, smaller footprint in New York City will enable us to provide a desirable, exciting, state-of-the-art office facilities for our employees in both locations, while meaningfully improving our cost structure and positioning our firm for a stronger future. And with that, Seth, Jim and I are pleased to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from the line of Craig Siegenthaler, Crédit Suisse.

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

So first one, just a follow-up for John on the headquarter relocation in Nashville. It sounded like all those savings targets you just laid out were really coming from comp and occupancy. I'm just wondering, did that include the job grants and also tax credits, too? Or is that additional?

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

It's all included. So those would be the net numbers.

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

Okay. And is there a benefit to the tax rate there, too, which was included?

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

Tax rate from what perspective?

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

Okay, just from the headquarter movement, and I also thought there could be some tax credits that would reduce your tax rate down the road.

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

We don't expect the tax rate for us to change materially, from where it is today.

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

Got it. And can you just give us a quick update on the new real estate private equity fund group. I believe you're forming a joint venture there? I know you have a pretty developed business there on the debt side. But on the equity side, what is your plan in terms of fundraising?

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

Craig, it's -- we're in the process of, as you just pointed out, setting up a joint venture with the current team. I don't really think, in terms of operationally, much is going to change. They're going to continue to be involved with both the equity and the debt business. Without going into a lot of detail, we just think, with this structure, we have the opportunity to accelerate our overall fund-raising effort in terms of accessing new sources of capital.

Operator

Our next question will come from the line of Michael Carrier, Bank of America Merrill Lynch.

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

John, just on the Nashville move. I think, you mentioned like the $0.04 impact. I don't know if you can just provide us a little color on if it's all in occupancy, if there is some in comp? Because you also -- you said that the revenue backdrop is kind of maintained in the comp ratio maybe heading to the -- slightly lower in the second half. So any color on kind of the nuances there?

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

Sure. Mike, it's John. So, over the course of the transition period, the costs will fall between both occupancy and compensation. So G&A and compensation would be affected, those line items. In the short term, though, it's going to be more comp related, particularly in the first year. And so, I did talk about that we may lower the comp ratio in the second half of the year down to 48. And I think that probably would have been lower if it had not been for these transitional costs.

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

Okay, that's helpful. And then I know these are hard to predict, but on the performance fees on the Financial Services Fund, given that you're monetizing that fund, I'm just trying to understand maybe like how much that contributed this quarter and maybe what's left in that fund that could potentially kick off additional fees in the second half?

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

Sure, it was $14 million of the $35 million in performance fees we had for the quarter. Under the old revenue recognition that was in place prior to this year, we wouldn't have been able to recognize these fees until the fund was completely liquidated. But what's happened now, with the new revenue recognition that went in place at the beginning of this year, as long as it's probable that those fees will not be clawed back, you can recognize them. So what's happened here is it just accelerated the recognition. And that $14 million actually is cash sitting in the fund that represents performance fees earned on the liquidation or the realization -- realized gains in the portfolio. We're still liquidating the portfolio, and it will continue through the balance of the year. And so I would expect that we will be able to realize -- or recognize additional performance fees if markets hold up where they are now through the balance of the year.

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

Mike, I would also add. I mean, look, we've talked about the fact that we've been building the alternatives business. It is becoming a bigger piece of our overall assets. Things like Arya Partners raised, I think, it's over $700 million year-to-date. As we see us continue to move in that direction, performance fees are likely to become a bigger piece of the overall revenue mix, obviously, dependent on the capital markets backdrop, though, as well.

Operator

Our next question will come from the line of Alex Blostein, Goldman Sachs.

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

Just hoping to touch on the Institutional business for a second. So the active pipeline continues to grow really nicely on a year-over-year basis, and obviously, the consistency of it is good to see. Can you guys help us with timing on when you think some of these will fund? And I guess, more broadly, what do you guys seeing on the Institutional front amid all the kind of trade concerns and geopolitical concerns? Are you starting to see any slowdown potentially on the funding on some of those pipelines?

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

We haven't seen -- I've read about it. We haven't seen slowdown in the funding yet, but we do know that activity levels more broadly in the industry seem to have been declining. In our own case, our pipeline has, in fact, been pretty stable, and indeed, we've seen some fixed income come back into the pipeline, which is encouraging to us because of her outflows really have been concentrated in investment-grade fixed income where we lost a couple of lumpy mandates in the second quarter. But, in terms of the realization of the pipeline, it's typically sort of over a 6- to 18-month period where we see most of that come to pass, but it is very hard, as you know, Alex, to predict it.

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

Great. And since you mentioned fixed income, that was actually my second question. I guess, as you look at the near-term performance, slipped a bit. Obviously, there's been concerns around higher interest rates for a little while now. Given your guys' presence in the market and particularly with respect to kind of global retail within fixed income, how should we think about the activity rates now potential sort of risks to flows within fixed income on the back of slightly choppier 1-year numbers?

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

In our own case, because we have such a large business in Asia, that has been what has been driving the larger portion of our flows both ways, and we've seen volatility there before. What I can tell you is we don't think it's performance related there, and we continue to see gross sales, albeit smaller, and the level of redemptions have slowed a bit, actually, in the second quarter versus the first. But, I think, generally, concern about rates rising, concern about volatility in emerging markets, which impacted us from a performance perspective and, I think, others, and finally, the level of spreads, which remained fairly tight by historic standards, probably we would anticipate that we'll continue to see lower levels of activity there than we have in prior years.

Operator

(Operator Instructions) Our next question will come from the line of Bill Katz, Citigroup.

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

Just I wanted to come back, I apologize for spending a little more time on this, but on the opportunity for the cost savings. I was writing down a lot of numbers here. Can you just sort of walk through, I thought heard $125 million to $135 million of sort of aggregate -- I'm sorry, $150 million to $160 million of sort of total savings? But then I sort of heard you saying the exit savings could be $70 million per year into 2025. Just help me sort of reconcile those numbers, please.

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

Sure. So, Bill, it's John. The $70 million is the ongoing annual savings starting in 2025 going forward from that point. The savings during the transition period. So as we talked about, the transition period is from now to 2024. So in that transition period, we talked about transition costs of $125 million to $135 million but, over the same period, having transition savings of, I think, we said $155 million to $165 million.

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

So what happens, Bill, is that we're going to start to generate savings, that savings rate will build, and then there's a step-up in 2025 once the double rent here in New York rolls off.

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

Okay, that's what I thought but I just wanted to confirm. Okay, just coming back to performance fees more generally. A, can you sort of quantify in terms of the financial services liquidation what we might expect with those performance fees? And then stepping away from that, and I sort of appreciate the color sort of building more toward alternative. Is there a way to think about the waterfall impact of performance fees as we look down into the second half or this year and, maybe more importantly, into 2019?

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

Sure. Bill, it's John. I'd say, on the Financial Services Opportunity Fund I that we're in the process of liquidating, very hard to predict because obviously it depends upon what happens during the market as we continue to liquidate. I do think, though, that the liquidation, if it proceeds the way I think it will, we'll have heavier liquidations in the third quarter. So the performance fees related to that could potentially be higher in the third quarter than the fourth quarter. But we just have to wait and see. And just -- I think, just in terms of general, now when you think about the performance fees with the new revenue recognition, just as we saw this quarter, there is a potential for things to be accelerated vis-à-vis over how they were recognized in the past. Particularly with a fund like this, and I don't see another one out there like this right now, but this fund has been out there for 5 years, I think. But all of the other types of strategies that we have on annual bases, we do look at them now each quarter to see whether or not some of those performance fees should be recognized earlier. And we could end up in a situation where things that were on a calendar year basis before, if we get into the third quarter, there could be potentially a piece of that, that may get recognized depending upon if it's -- if we deem that it's probable that it cannot be clawed back. So I think, when you look at performance fees and the new revenue recognition standard, what you'll see is for the performance fees going forward, it will continue to be lumpy, but I don't think they'll be as lumpy as what they've been in the past.

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

Okay. If I could just beg maybe 1 more question, I know I'm asking 3. Just coming back to the institutional pipeline, it does seem like your momentum is a bit better than some of your peers, at least so far with those that have reported. I sort of appreciate the macro dynamics putting a little bit of a pregnant pause on the industry dynamics. But is it your sense that you're gaining share versus other active managers? Is it a shift from different buckets? I'm just sort of curious of where your momentum may be coming from or what the incremental driver is beyond just performance?

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

Bill, it's Seth. And I just want to thank everybody because I know it's a hectic day and a busy earnings week, but it's very hard for us to know if we're taking share from other people because we really don't know what the denominator is in terms of the total amount of search activity out there. That being said, what's interesting and, I think, inspiring for us is the mix is really changing in a favorable manner for us as we gain more recognition from consultants. And so I would say we -- I can't say it definitely but we probably have the most balanced set of mandates in our backlog than I think we probably ever have before across multi-asset, alts, fixed income and equities. So I think consultant advocacy has certainly helped us there.

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

I would add, as Seth just said, Bill, this is, in some sense, a reflection of what we've been talking about with respect to consultant support for our equity strategies. I mean, the -- there are not a lot of our peers that are seeing positive flows into their equities businesses in both institutional and retail for that matter. And then, the other piece of it is the -- that I think is a change is what we're seeing in terms of flows into our newer alternative services, be it, as I mentioned earlier, Arya Partners, our Commercial Real Estate Debt fund, we've just raised a $3.1 billion fund. There was $500 million that funded over the first half. So I think, it's a combination of those 2 as well as the ongoing strength of the fixed income franchise that has helped fuel some of what you're seeing.

Operator

And at this time, we have no further questions.

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

Thank you, Holly, and thanks, everyone, for joining the call today. Investor Relations is available for any follow-up questions you may have. Thanks, and have a great day.
