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AB - Q1 2018 AllianceBernstein Holding LP Earnings Call

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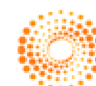

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PRESENTATION

Operator

Thank you for standing by and welcome to AllianceBernstein's first-quarter 2018 earnings review. (Operator Instructions). As a reminder, this conference is being recorded and will be available for replay for one 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. Please go ahead.

Andrea Prochniak - *AllianceBernstein Holding L.P. - SVP, Head of IR & Corporate Communications*

Thank you, Kim. Good morning, everyone, and welcome to our first-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 first-quarter 2018 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 by using our handle @AB_insights. Now I'll turn it over to Seth.

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

Thank you. Good morning. After a robust 2017, mounting concerns over inflation, rising interest rates and geopolitical events made for turbulent markets in the first quarter of 2018. In this environment I'm proud of how our investment teams managed to maintain strong longer-term track records.

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The quarter's market volatility and client rebalancing activity did affect our active flows, which are just over negative $1 billion for the quarter. However, it's worth noting that we still ended the quarter with slightly positive organic revenue growth.

Higher fees on our inflows into equity, alternative and multi-asset strategies more than offset lower fees on our larger outflows from fixed income and passive. And our average fee rate continued to improve, by 1% sequentially and 2% year on year. Let's get into the results.

Starting with a firm-wide overview on slide 3. Due largely to a $10 billion in customized retirement strategies, or CRS, fundings in our institutional business, total first-quarter gross sales of $34.1 billion were up nearly 80% versus both prior periods. But higher gross retentions in retail and institutional fixed income, as well as $7 billion from CRS, reversed our three quarter trend of net positive flows. Net outflows were $2.4 billion.

Our assets under management finished up the year-on-year in line with the strength of the global markets last year, and slightly lower on a sequential basis as they pulled back in the first quarter. Average assets under management were up versus both prior periods, as the strong markets of 2017 extended into January of this year.

Slide 4 shows what flows did during the quarter. Up a roughly $15 billion year on year and sequential increase in total gross sales, and about two-thirds came from new institutional CRS fundings I mentioned. The rest came from higher sales across all three of our client channels; in retail gross sales of $14.9 billion were our highest since the fourth quarter of 2012.

We saw notable strength in municipals and in active equities, where retail quarterly sales our highest since 2007. In private client, a new return-enhancing option overlay strategy called Option Advantage proved appealing, accounting for $1.3 billion of our total $1.7 billion in net flows during the quarter.

Total gross redemptions of $36.5 billion were up on one large low fee CRS redemption as well as lumpy outflows in investment grade credit in institutional, as well is a spike in Asia ex-Japan retail fixed income redemptions. As I mentioned, these factors caused our shift to negative net flows. We expect another low fee $7 billion institutional CRS redemption at the end of this month, which you'll see reflected in our April AUM release in a couple of weeks.

Let's move on to institutional performance, beginning on slide 5. For fixed income our performance did decline slightly amid the quarter's unusual global bond market volatility, but we still finished with 80% or more of our assets in outperforming services across time periods.

In equities, the large majority of our services outperformed during the quarter. However, one large service fell out of outperforming categories which brought down our overall percentage for the three- and five-year periods. Through quarter end 76% of our total rated US retail mutual fund assets and 89% of our rated Luxembourg-based fund assets held four or five star Morningstar ratings.

Slides 6 and 7 delve into specific product performance, beginning with fixed income. Every eligible fund on slide 6 ranks in the top two quartiles for the five-year period. All but one do for the three years as well. Six ranked top quartile across all qualifying type time periods, with US, European, and municipal income as standout performers.

On slide 7 US thematic pan-European equity and Luxembourg maintained their top decile rankings for one-, three- and five-year periods. Services designed for optimum upside and downside capture, like global and emerging markets low vol, posted top decile and top quartile performance for the three- and five-year periods, respectively.

Now I'll discuss our client channels, beginning with retail on slide 8. I mentioned earlier that retail gross sales of $14.9 billion were our highest since the fourth quarter of 2012. They also continue to reflect more diversity by asset class and region.

Increases of 10% year on year and 16% sequentially include sales growth in every region. In fact, in our US Retail gross sales of $5 billion were our best since the third quarter of 2007. And as you can see on the top left chart, sales were up double digits in every asset class except taxable fixed income. However, first-quarter total redemptions increased more, by 36% versus both comparable quarters. This was particularly pronounced in Asia ex-Japan fixed income, our largest retail business.

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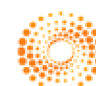

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Sales of our flagship global high-yield and American income portfolios held up well despite the industry-wide decline demonstrated in the bottom left chart. However, sales were surpassed by a 33% increase in combined redemptions. These two services accounted for virtually all of our $1.3 billion in net outflows for the quarter.

Strength in active equities, multi-asset and municipals helped offset our challenges in taxable fixed income. I mentioned earlier that our equity gross sales of $6.3 billion were our highest in 11 years. Gross sales of our Luxembourg-based emerging markets multi-asset, or EMMA, fund more than doubled year on year to $1.3 billion. And gross sales of our multi-asset fund-of-funds product in Taiwan more than quadrupled during the same period.

A range of diverse AB retail funds ranked in the top 10 among their Morningstar categories for the quarter, including: mortgage income at number one; EMMA at number two; large-cap growth at number three; and low vol at number six.

We're also excited about the progress we've made with our new FlexFee funds. Four of them are now available on several major US distribution platforms and our partners are quite supportive. While it will take years to scale of these innovative new offerings, we believe they have significant long-term growth potential.

Let's move on to institutional on slide 9. Although gross sales hit a 10-year high, redemptions of $17.6 billion were even higher and included $7 billion from CRS and $4 billion from US investment grade corporates. This is resulted in net outflows of $2.8 billion.

At the same time, however, the annualized fee base our institutional business increased during the first quarter. That's because of the continuing strong momentum in higher fee active equity and alternative products.

Large fundings in international value and emerging markets strategic core drove active equity gross sales of $3.3 billion in the first quarter, which exceeded our full-year 2017 total. And equity net flows at $2.2 billion were our highest since the fourth quarter of 2007.

New pipeline additions of $2.2 billion came largely from equities, along with alternative strategies like commercial real estate debt and Arya Partners, our multi-PM long/short hedge fund. Today our $5.7 billion pipeline consists entirely of active assets, that's the top left chart, of which 97% represent higher fee equity in alts, that's the bottom left chart. As a result, our pipeline average fee rate is at its highest in six years, which certainly bodes well for future institutional revenues.

Now I'll discuss private wealth management on slide 10. For some time we've been cautioning private clients to expect more volatility. When that volatility came in the first quarter we had the chance to demonstrate the value of our advice. Gross sales of $4.4 billion came from strength in core equities, fixed income and targeted services, as well as client take up on Option Advantage, our new options overly strategy.

At the same time we kept clients properly invested through the market volatility. Gross redemptions held steady at $2.7 billion and our first-quarter annualized outflow rate hit a 20-year low. That's the top left chart.

As the bottom left chart shows, we keep broadening our appeal with more sophisticated and hands-on clients with our targeted services. We have created 15 new services in the past five years, securing $7.3 billion in deployed and committed assets so far.

Targeted services commitments were $400 million in the first quarter. Option Advantage, which is designed to enhance portfolio returns over the long-term, has been well received in the current environment. We're proud to have introduced an innovative offering that distinguished Bernstein in a chaotic market, though we don't expect this type of momentum to continue.

Let me wrap up the business review with the sell side on slide 11. Bernstein research first-quarter revenues of $114 million increased 1% year on year and declined 4% sequentially. The return to more normalized levels of US market volatility helped trading volumes, as you can see on the bottom left chart. When you add in robust trends in Europe and Asia, our global trading volumes increased 23% year on year in the first quarter.

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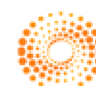

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We are four months into the implementation of MiFID II and, while it's too early to draw any definitive conclusions, early signs reinforce our conviction in our long-term growth strategy. The investments we've made to remain the industry's quality leader in research have enabled us to negotiate reasonable research prices so far with the majority of our unbundled European clients.

In the first quarter, 47% of our revenue came from unbundled clients. It's worth noting that for many of our unbundled clients we experienced a lag in first-quarter revenues caused by clients switching to a program of paying execution rates with research paid in arrears.

The steps we've taken to strengthen our leading agency trading platform have increased client confidence in our execution capabilities. Newly unbundled clients increased their trading volume with us by 15% in the first quarter.

Bernstein is also well positioned in the continued industry shift toward electronic trading. Our 50/50 mix of high touch versus electronic trading revenues compares favorably with the 70/30 mix for the industry. And broadening our global business has acted as a buffer in a challenging US environment. Today 42% of our revenue comes from outside North America and our first-quarter Asia revenues were up more than 50% year on year.

So to finish up on slide 12, we've made new strides of our long-term growth strategy in the first quarter. We showed clients that we came deliver idiosyncratic stock specific alpha streams that can't be replicated by factor or beta sources. And we've made further progress in commercializing and scaling our diverse suite of global offerings.

Speaking to our financials, we increased our overall fee [right] by 1% sequentially and 2% year on year on a continued positive shift in the mix of our business. And through continued strict expense discipline we again expanded our adjusted operating margin year on year.

Now John will take you through our financials.

John Weisenseel - *AllianceBernstein Holding L.P. - CFO*

Thank you, Seth. Let's start with the GAAP income statement on slide 14. First-quarter GAAP net revenues of $868 million increased 13% from the prior year period. Operating income of $223 million increased 34% and the 23% operating margin increased by 340 basis points. GAAP EPU of $0.60 compares to $0.46 in the first quarter 2017.

As always, I'll focus my 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 as substitutes for, in 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. First-quarter revenues of $782 million, operating income of $235 million and our margin of 30.1% all increased year on year. We earned and will distribute to our unitholders $0.73 per unit compared to 46 units -- $0.46 for last year's first quarter. Higher base and performance fees combined with flat G&A expenses primarily drove the improvement.

Operating income and margin decreased from the fourth quarter 2017 despite an increase in revenue due to the usual first-quarter sequential increase in our compensation accrual. As discussed on our previous earnings call and in our quarterly filings, we had deferred the recognition of $35 million of operating income relating to our real estate equity investment fund which required a higher threshold to achieve under the former accounting rules.

ASC 606, the new revenue recognition accounting standard we implemented as of January 1, 2018, lowers the required thresholds, allowing performance fees to potentially be recognized as revenue sooner. As a result, the opening 2018 balance sheet reflects a $35 million increased in partners' capital.

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Although this amount has been excluded from the first-quarter 2018 GAAP P&L per the implementation rules, it is included in our first-quarter 2018 adjusted P&L, which increased our adjusted EPU and unitholder distribution by approximately $0.12. We delve into these items in more detail on our adjusted income statement on slide 16.

Beginning with revenues, first-quarter net revenues of $782 million increased 25% year on year. First-quarter base fees increased 16% from the same prior period due to higher average AUM across all three distribution channels and higher fee rate realization reflecting a mix shift from lower to higher fee products.

Compared to the first quarter 2017, total average AUM increased 13.4% and the portfolio fee rate increased 2% following a 3.7% fee rate increase for 1Q 2017 versus 1Q 2016 comparable periods. The 41.1 basis point portfolio fee rate for the first quarter 2018 was the highest quarterly rate in more than five years. Approximately $11 million or 14% of the $78 million total increase in first-quarter 2018 base fees came from higher fee rate realization.

First-quarter performance fees of $84 million compared to $6 million in the same prior year period and includes $78 million from the real estate equity fund discussed earlier. So, excluding the real estate fund, performance fees would have been flat year on year.

First-quarter revenues for Bernstein Research Services increased 1% year on year on higher revenues in Asia and Europe, which benefited from a weaker US dollar, offsetting lower US revenues. Global revenues were adversely affected by lower fee realization due to the delay in revenue recognition resulting from the unbundling of research payments from trading commissions in addition to a shift to lower fee electronic trading.

First-quarter net distribution expenses increased $2 million due to the distribution mix shift of Asia retail fund sales towards higher fee distributors. Investment gains of $3 million declined by $2 million year on year on lower seed investment gains.

Other revenues increased 35% compared to the same prior period because of higher dividends and interest earned on broker/dealer investments and higher shareholder servicing fee revenues. Interest expense increased $5 million for the first quarter year on year from higher interest paid on broker/dealer customer balances because of higher interest rates.

Moving to adjusted expenses. All in, young total first-quarter operating expenses of $547 million increased 15% year on year. Total compensation and benefits expense increased 21% year on year driven by higher base, incentive compensation, commissions and fringe benefit costs.

As discussed on last quarter's call, we accrued compensation at 48.5% of adjusted net revenues for the first quarter this year compared to 50% for the same period of the prior year and 42% for last year's fourth quarter. The 150 basis point reduction in our comp ratio for the first quarter added approximately $0.04 to our first-quarter EPU.

We currently plan to accrue compensation at a 48.5% ratio in the second quarter with the option to adjust accordingly throughout the remainder of the year if market conditions change.

First quarter promotion and servicing expenses increased 7% versus the same prior year period due to higher Bernstein research services trade execution expenses on higher global client trading activity. G&A for the first quarter was essentially flat year on year, reflecting our continued focus on diligent expense management.

First-quarter operating income of $235 million increased 56% from the prior year as revenue growth outpaced expense growth. The first-quarter incremental margin versus the prior year period was 54%, demonstrating the operating leverage of our business. First-quarter operating margin of 30.1% was up 600 basis points year on year. The sequential decline was entirely due to the higher comp ratio.

You may have noticed that our first-quarter adjusted operating income was $12 million higher than our GAAP operating income. This amount represents the net of the $35 million from the real estate equity fund performance fees discussed earlier and $23 million operating income related to consolidated seed capital investments, the latter of which is excluded from the adjusted results since there's no effect on net income or EPU. All of the non-GAAP adjustments are outlined in the appendix to this presentation.

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The financial results for the first quarter were strong even after excluding the effects of real estate equity fund performance fees. Total revenues increased approximately 13%. Total expenses increased 7%. Operating income increased 30%. And the margin was 27.7%, up 360 basis points.

Finally, the first-quarter effective tax rate for AllianceBernstein LP was 7.1%, of which 190 basis points relate to the accrual of withholding taxes for a foreign dividend that is unique to the first quarter. Excluding this item, the effective tax rate was 5.2% for the quarter, which compares to the 5.5% we currently anticipate for full-year 2018.

We highlight these points on the next slide of the presentation as well. And with that, Seth, Jim and I are pleased to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Michael Carrier, Bank of America Merrill Lynch.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Seth, the first question, you highlight some of the trends on the fee rates and the revenue growth has been favorable. Just on the flow trends and maybe the outlook, we saw really strong sales across channels, but the retail institutional you mentioned in terms of the pickup in redemptions -- any kind of indication on how much that was driven by the market volatility and some of the shifts that we've seen in the quarter versus anything that's more product performance gear. Just trying to get some sense on the outlook, on what's more environmental versus fundamental.

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

Thanks, Mike, for the question. And I'm going to start, but I think John may jump in when I lead you astray. But my own view is that a lot of it is environmental just given the heightened level of volatility in markets.

I think that's most evident in Asia, where our own investment performance remained quite strong but market volatility, which we've seen before, had popped up again. And I think we made note of that at the last earnings call -- that we were beginning to see greater volatility there.

I think the trend toward more outflows is continuing generally. I think it's more industry related. The one that I would highlight that's more related to us may have been investment performance and spread tightening in investment grade. That would be the one area that I would highlight as probably more unique to us than the industry. But John?

John Weisenseel - *AllianceBernstein Holding L.P. - CFO*

Mike, I would add that particularly the redemption rates were very high in the high yield strategies, much higher than the average for the portfolio. And I think here really the good news for the quarter was that even despite that, and those are high fee products, we still had positive annual fee rate base add to the portfolio. Which means even though we had outflows, the net increase in revenue from the flows for the quarter was positive, which is a very strong thing.

And then when we look at the institutional market, there the flows -- the effective fee rate on the new flows were actually more than twice the fee rate on the outflows. So we're gaining there high fee business, losing low fee business. And on the retail side we lost some high fee business, but overall in the entire portfolio the revenues were -- we had positive contribution to revenues from the flows for the quarter.

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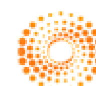

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Michael Carrier - *BofA Merrill Lynch - Analyst*

Okay, got it. And then just on the Bernstein Research Services, you mentioned something like the revenue recognition, like maybe timing. Just trying to get some color on -- like, was it a quarter impact that we would expect to see some of that come in throughout the year? Just trying to figure out the MiFID stuff versus higher activity levels, and then whatever that factor was and how much that weighed on the quarterly revenues.

John Weisenseel - *AllianceBernstein Holding L.P. - CFO*

Sure. Mike, it's John again. And I think the way to think about this is in the past we were paid a commission when we executed the trade. That commission covered both trading and the research that we're providing. What happened here with the unbundling, we executed the trade but of course we were paid a commission just for the trading piece.

And we are still -- we're supplying the research to the client, but haven't necessarily been paid for it. So for this we're on a cash basis recognition for revenue. So you are absolutely correct: we would expect that there's a lag here and that we would record that revenue when we get paid for that research in subsequent quarters.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Okay. All right, thanks a lot.

Operator

Bill Katz, Citi.

Bill Katz - *Citigroup - Analyst*

Just coming back to the CRS platform, could we -- could you size where that stands in terms of residual AUM? And maybe take it a little bit -- a layer deeper and give a sense of why you are seeing the lumpy outflows now and how to size the revenue impact of that?

Jim Gingrich - *AllianceBernstein Holding L.P. - COO*

In terms of the last part of your question, lumpy, it's a business, as you might imagine, that is -- from an outflow standpoint, often impacted by corporate mergers or other types of events of that sort, which can lead to decisions to -- that are unrelated to performance, which is how I'd characterize both the situation that Seth mentioned with respect to April as well as what we saw in the first quarter. I can see John is in the process of looking up the AUM.

John Weisenseel - *AllianceBernstein Holding L.P. - CFO*

No, the AUM right now is about $44 billion that we currently have for the CRS strategies. And keeping in mind these are all low fee, typically just a couple of basis points.

Bill Katz - *Citigroup - Analyst*

Okay, that's very helpful. And then the broader question is (technical difficulty) and so appreciate your guidance for the second quarter in terms of the comp ratio. You laid out a margin target by 30% by year end 30 as well as the potential for incremental margin improvement on top of that from relocation.

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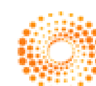

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Can you give us an update on how you think your tracking relative to that 30% given where you are today? And then any update in terms of timing or decisions on the relocation that you can share with us today?

John Weisenseel - *AllianceBernstein Holding L.P. - CFO*

Sure. Bill, it's John. I think we are on track towards that 30%. And when we stripped out the real estate fees, as I mentioned, we were just below 28% for the quarter. So I think we are in good shape with regards to the 30% margin target.

On the office -- and the new office location, I think we've made some very good progress with regards to that during the quarter in terms of selecting a potential location and determining the potential scale of that office and anticipate that we'll be able to make an announcement soon with regards to that.

As we talked about before, this will take place over a several year period. We would expect to incur transitional costs for the first couple of years before we achieve ongoing expense savings in the future.

Not in a position to talk about that now because we're still kind of sizing everything up, but hope that when we have our next quarter call in July for the second quarter that we'll be able to give you some guidance with regards to that.

Bill Katz - *Citigroup - Analyst*

Okay, thank you.

Operator

Alex Blostein, Goldman Sachs.

Alex Blostein - *Goldman Sachs - Analyst*

Wanted to pick back up the discussion around fixed income trends. And obviously not particularly surprising I guess to see a little more volatility here with higher interest rates. But just taking a step back, can you guys spend a minute on just a lay of the land on your fixed income franchise today?

When I look at the taxable side by channel and geography, and then specifically I guess zoning in on high-yield, maybe you guys can give us again a sense kind of who are the holders in terms of retail, institutional and geographically to help us size the impact of volatility of higher rates.

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

Let me start and say the Asian business is principally a credit business from a fixed income perspective, and that's retail principally again. I mean, there are some large institutional, but that's more traditional global investment grade oriented for the most part.

The institutional nature of the business in the US is much more significant. And again, it's a more traditional category and it runs the gamut of what we offer. But from a retail perspective in the US I would say it's, again, more high-yield oriented in terms of the asset classes within fixed income that we have our allocations in. And in Europe again, like Asia, more credit oriented. John, do you -- specific numbers?

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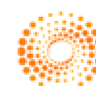

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John Weisenseel - *AllianceBernstein Holding L.P. - CFO*

No, I think I would have nothing to add there.

Alex Blostein - *Goldman Sachs - Analyst*

Okay, thanks. And my second question is just an update on FlexFee funds. I know you highlighted a couple of distribution partnerships that you formed already, but maybe just an update on what the uptake has been. Any sense of the assets on those platforms in these funds already? And the puts and takes as you guys are continuing to market this?

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

The assets on the funds remain small because we're now in startup mode with our distributors. But they are gearing up pretty aggressively, as are we, from a marketing perspective to bring this forward into their channels. But as we've said, this is just a long -- this is a long lead time build and we want to manage expectations around that.

Alex Blostein - *Goldman Sachs - Analyst*

Sure. But any concerns or signs of enthusiasm, positive or negative, kind of early reads are you guys getting from the channels?

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

The channels are -- we think are quite excited about it. So I don't have reservations in that regard. My only hesitation is I just don't want people to think that's going to impact 2018 or 2019 results materially, because I think it's really -- it's a long build out.

Because remember, a lot of assets are in taxable accounts, for example, and you don't want to trigger taxable events for clients, moving them in and out, as a consequence. So, I just want to manage expectations from that perspective.

Alex Blostein - *Goldman Sachs - Analyst*

Yes. Makes total sense. Great. Thanks, guys.

Operator

Craig Siegenthaler, Credit Suisse.

Craig Siegenthaler - *Credit Suisse - Analyst*

First, just a follow-up here with FlexFees. Do you think we'll see the other asset managers adopt this vehicle in 2018? And I know we've seen some already with Allianz.

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

I think Allianz, I think also Fidelity, if I'm not mistaken, in Europe, adopted it as well. I don't know whether we'll see others. I know they're talking about it, or at least I've heard they're talking about it.

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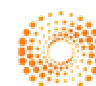

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Craig Siegenthaler - *Credit Suisse - Analyst*

Okay. And then my second question here -- and listen, I know you're limited in what you can say about the AXA USA split, but when you think about the business relationships you have between AXA USA and the parent, do you think this could provide new business opportunities for you in the firm split?

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

It's hard to gauge that. We're very comfortable (technical difficulty) relationships with both AXA SA and AXA Equitable. And we have assurance that they wanted to maintain the relationship from the AXA SA level, which we received recently. But I think on balance it -- the opportunities with AXA are pretty well explored. We continue to talk about new opportunities and they are supportive of it, particularly on seeding new ideas.

But I would say the other opportunities away from it would be with regard to competitors of AXA who might consider us for more business than they might have in the prior structure. I think only time will tell there.

Craig Siegenthaler - *Credit Suisse - Analyst*

Got it. Thank you, Seth.

Operator

(Operator Instructions). Rob Lee, KBW.

Rob Lee - *Keefe, Bruyette & Woods - Analyst*

I guess my first question -- maybe this is a question and maybe with a little bit of a request, but -- I mean, given you've had this -- the improving fee rate and positive kind of mix shift in your business, if we look at just -- if we were to try to back into the revenue contribution of flows in this quarter, despite the kind of modest negative number, I'm assuming that would be positive. And any sense of the magnitude of that?

And I guess maybe the second part of that, if the FlexFee products do start to take off and gather assets, would you consider adding that type of disclosure so we can get a sense of how the impact of that is impacting the net revenue mix in the short term at least?

Jim Gingrich - *AllianceBernstein Holding L.P. - COO*

Rob, as Seth indicated I think in his remarks, we did see -- while our active equity flows were negative just over $1 billion, the actual -- if you were to measure our organic growth in revenue terms, to your point, it was slightly positive, about 1% positive, which contributed to the fee rate being up 1% sequentially.

And that's just a function of the mix. And as you indicated, it's a combination of things like equities and alternatives or multi-asset, which carry higher fees than some of the areas where we saw outflows.

Rob Lee - *Keefe, Bruyette & Woods - Analyst*

Okay, great. Maybe as a follow-up, Seth, I think when you joined I guess about a year ago now, give or take, almost, I think the one of the things you had talked about when you came on board was how the firm had spent a lot of time, rightly so, expanding its product line in a lot of different areas over the years.

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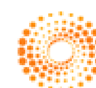

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And I think you felt that one of the things that -- where you could add value or needed to be done was really maximizing the sales of all these strategies that you had across the platform. And clearly there's evidence of that given good gross sales numbers.

But can you maybe talk a little bit about what type of maybe distribution changes, if any, you implemented or think maybe things that maybe could still be kind of tweaked to continue to drive the stronger gross sales? Besides the obvious thing of having good performance to help.

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

Thanks, Rob, for the question. I wish I could claim credit for the increasing momentum. I think it was already here and growing, given the investments that were made and, as you pointed out, the performance that we've been able to demonstrate for clients.

I did say and continue to believe that we have a full suite of services that I think offer a compelling value proposition for prospective clients. Our challenge was to effectively sell them through to our clients.

And I would tell you that probably the largest investment we're making globally is in distribution. Whether it's in Europe, where we are continuing to build out on the ground on the continent, where we are seeing real take up. In Asia to a lesser degree where we're already pretty well developed but we continue to explore opportunities there. And then particularly here in the United States.

And that the build out isn't just people. In fact, it made more be technology where we're spending our time and effort to leverage our salespeople more and provide more immediate and actionable feedback to our clients and distributors. And so, it is where we're focusing a lot of our time and effort. And I think the results so far have been promising, but it's a long build.

Rob Lee - *Keefe, Bruyette & Woods - Analyst*

Great. Thank you for taking my questions.

Operator

Thank you. There are no further questions at this time. I'll turn the call back to Ms. Prochniak for closing remarks.

Andrea Prochniak - *AllianceBernstein Holding L.P. - SVP, Head of IR & Corporate Communications*

Thank you, everyone, for participating in our conference call today. If you have any follow-ups feel free to contact Investor Relations. Thanks and have a great day.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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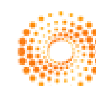

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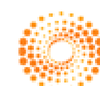

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