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AB.N - Q4 2023 AllianceBernstein Holding LP Earnings Call

EVENT DATE/TIME: FEBRUARY 07, 2024 / 3:00PM GMT

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the AllianceBernstein Fourth Quarter 2023 Earnings Review. (Operator Instructions) As a reminder, this conference is being recorded and will be available for replay on our website shortly after the conclusion of this call. I would now like to turn the conference over to the host for this call, Head of Investor Relations for AllianceBernstein, Mr. Mark Griffin. Please. . .

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

Thank you, operator. Good morning, everyone, and welcome to our fourth quarter 2023 earnings review. This conference call is being webcast and accompanied by a slide presentation that's posted in the Investor Relations section of our website, www.alliancebernstein.com. With us today to discuss the company's results for the quarter are Seth Bernstein, our President and CEO; Matt Bass, Head of Private Alternatives and Bill Siemers, Interim CFO. Onur Erzan, Head of Global Client Group and Private Wealth, will join us for questions after our prepared remarks. Some of the information we'll present today is forward-looking and subject to certain SEC rules and regulations regarding disclosure. So, I'd like to point out the safe harbor language on Slide 2 of our presentation. You can also find our safe harbor language in the MD&A of our 10-K, which we will file on Friday, February 9. Under Regulation FD, management may only address questions of material nature from the investment community in a public forum. So please ask all such questions during this call. Now I'll turn it over to Seth.

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

Good morning and thank you for joining us today. Financial markets enjoyed a strong rally to end 2023 as investors anticipated a shift in Fed policy to lower interest rates in 2024. In 2023, AB was among the beneficiaries of the early wave of fixed income reallocations, with 2 of 3 channels growing organically. We drove continued market share gains in U.S. retail, led by municipal SMA and taxable fixed income. We also saw strong cross-border fixed income flows. We made good progress in our key strategic initiatives, launching 10 active ETFs, now 12 in total, at $1.5 billion in assets under management, receiving approval for our wholly owned China fund management company license and growing our relationship with Equitable in support of our private markets platform, which Matt Bass will touch on further. Looking ahead, U.S. money market funds entered the year at a record $6 trillion in AUM, some of which we expect will migrate to higher return opportunities as the rate cycle turns over later this year.

Now let's get into the specifics, starting with a firm-wide overview on Slide 4. Fourth quarter gross sales were $28.3 billion, down $2.6 billion from the year ago period. Firm-wide active net outflows were $2.8 billion. Full year gross sales of $101.5 million compared to $115.6 billion last year. Adjusting for 2 large custom target date sales in 2022 totaling $16 billion, firm-wide sales rose slightly year-over-year. Full year active net outflows were $5.2 billion, snapping a streak of 4 straight years of firm-wide active organic growth. Year-end asset under management of $725 billion increased by 12% year-over-year and 8% from the end of the third quarter.

While fourth quarter average assets under management were up 8% from the prior year and full year average AUM was down 1%. Slide 5 shows our quarterly flow trend by channel. Firm-wide, fourth quarter net outflows were $1.8 billion. Strong retail gross sales of $21 billion increased 47% year-over-year and 24% sequentially, driven by both fixed income and equities. Net inflows were $1.3 billion as we continued to gain share in fixed income, up 14% annualized organically. Our institutional channel had gross sales of $3 billion, down versus prior periods, with last year's fourth quarter including $6.4 billion from custom target date sales. Net outflows were $2.5 billion. In Private Wealth, gross sales were healthy at $4.3 billion, driven by taxable fixed income and munis. Net outflows were $600 million from some seasonal impact from year-end tax-related planning.

Turning to annual net flow trends on Slide 6. In a challenging year for active managers, gross sales of $101 billion(sic) [$101.5 billion] led to firm-wide net outflows of $7 billion or 1.1% attrition. Still, our average organic growth rate over the last 5 years was positive 2%. Retail sales of $71 billion(sic) [$71.1 billion] grew by 8% year-over-year. Net inflows of $3.7 billion were driven by strength in taxable fixed income in munis. Institutional sales of $11.8 billion declined from $32 billion last year as we compared against last year's $16 billion in custom target date fundings. 2023 net outflows were $11.8 billion. Private Wealth had strong gross sales of $18.6 billion with net inflows of $1.1 billion, the third straight year of organic growth.

Investment performance is shown on Slide 7. Starting with fixed income. Both government bonds and credit risk assets finished 2023 on a high note, as bond yields fell sharply with most central banks ending their hiking cycles. The fourth quarter rally brought full year developed market treasury turns to 6.7% as measured by Bloomberg Global Treasury Index on a hedge basis. Most credit risk sectors posted strong relative returns to government bonds with developed markets high-yield up 13.8%, and emerging market local currency bonds up 12.7%. The AB's fixed income performance remains strong with 75% of assets outperforming over the 1-year period, 73% over the 3 year and 77% over the 5 year. In 2023, we experienced $5.2 billion of net inflows into our American Income Fund as clients looking to put cash to work became more comfortable taking duration.

Turning to equities. For many of the same reasons that bonds rallied, equity markets also registered strong gains in the fourth quarter with the S&P 500 up 12%. Market breadth improved with previously lagging segments of the market rebounding as small caps outperformed large caps and value outperformed growth. Large cap index returns in 2023 were concentrated within the Magnificent 7 stocks, seen as leading beneficiaries of the AI revolution. Representing more than 1/4 of the index, these stocks disproportionately drove cap-weighted S&P 500's total return of 26% versus 14% for the equal weighted version.

When combined with stock selection, our performance continued to lag the mega-cap tilted benchmarks, with 26% of equity assets outperforming over the 1-year period, 45% over the 3-year and 42% outperforming over the 5-year period. Our research process remains robust, and our views are fundamentally driven. Over time, we believe the sources of market returns will broaden relative to the recent period of concentrated returns, encompassing a more fundamentally driven environment. Relative to peers, we continue to outperform the Morningstar peer group over the longer term, with 62% and 68% of our equity assets outperforming over the 3- and 5-year periods, respectively.

Now I'll review our client channels, beginning with retail on Slide 8. Gross sales for the fourth quarter and the full year increased versus prior periods. The full year redemption rate normalized to 28% versus a historically low 24% last year. We generated net inflows of $1.3 billion in the quarter and $3.7 billion for the year, with strength in cross-border fixed income and U.S. retail outpacing equity outflows. U.S. Retail grew organically for the fifth consecutive year with $9 billion of net inflows, up 11% in 2023 and up 9% on average over the last 5 years. Our U.S. large-cap growth product posted $1.4 billion of net inflows, driven by U.S. demand, and we posted our 11th straight year of municipals growth with net flows up $5 billion, growing 19% organically. In taxable fixed income, we grew by 9% organically with $5.2 billion in net inflows in American income as well as money markets. As shown on the bottom right, we ranked in the top 2% of U.S. retail flows in munis and cross-border fixed income flows with the #1 rankings in muni income, Global High Yield and American Income. We launched 10 active ETFs in 2023 with a total of 12 now at $1.5 billion in assets under management.

Turning to Institutional on Slide 9. Fourth quarter gross sales were $3 billion, with net outflows of $2.5 billion. Full year gross sales were $11.8 billion. Incidentally, net outflows were $11.8 billion, driven by equities and multiasset. Our pipeline was $12 billion at quarter end, down $500 million sequentially. The Fourth quarter fundings were $1.5 billion, led by AB CarVal's residential mortgage and renewable energy strategies and low-vol high-yield. In the quarter, we added over $1 billion in active equity mandates led by $600 million in Global Core and $325 million in U.S.'s mid-value. Equitable's initial $10 billion private market program is now 90% deployed, and we were pleased in December to announce the launch of the PCI NAV Lending strategy supported by a $500 million commitment from Equitable.

Moving to Private Wealth on Slide 10. Fourth quarter gross sales of $4.3 billion rose 6% year-over-year and 7% sequentially. And 2023 gross sales of $18.6 billion were up 6% year-over-year. We posted strong sales in money market funds, municipals, and our proprietary passive equity tax harvesting strategy, which grew to $3.6 billion, posting strong annualized organic growth of 41%. Fourth quarter net outflows of $600 million reflected some seasonal impact from year-end tax-related planning. While full year net inflows of $1.1 billion represented our third straight year of organic growth. We've experienced strong productivity growth in our financial advisers, averaging 8% annually since 2018, and we continue to invest in FA headcount, up 5% at year-end versus the prior year. Alternative capital raises were $1.9 billion, led by our secondaries partnership with LSV, real estate equity, and our private credit business.

I'll finish our business overview with the sell side on Slide 11. Fourth quarter Bernstein Research revenues of $100 million were flat year-over-year and increased 7% sequentially. We saw a modest improvement in the U.S., though key global markets remain subdued. Full year revenues of $386 million declined by 7% as institutional trading activity remained constrained. We launched diversified new sector coverage and hosted 2 client-centric conferences, health care services disruptors and U.S. Quant. We had 12 top-ranked analysts in Institutional Investors All-American Research Team survey and ranked in the top 10 in generalist sales and trading. Our joint venture with Societe Generale is on track to close in the first half of 2024. We anticipate disclosing further financial details closer to that time.

I'll conclude by reviewing the status of our strategic initiatives on Slide 12. Performance in fixed income was strong for all periods while equities continued to lag based on SOX selections versus concentrated large-cap benchmarks. 2 of our 3 channels grew organically, Retail and Private Wealth. Fixed income net flows grew by 5% with robust growth in U.S. retail where our muni SMA platform reached $23 billion in AUM, up 36% versus the prior year. We were also pleased to be awarded a license for our wholly owned China fund management company. Fourth quarter adjusted operating income was up 6% year-over-year. Operating margin of 29.2% was down 80 basis points and earnings and unitholder distributions of $0.77 per unit were up 10%. Full year 2023 operating income declined by 1%, margins of 28.2% declined by 70 basis points and earnings per unit of $2.69 declined 9% year-over-year. Lastly, we're pleased that Jackie Marks has joined our team and will be appointed Chief Financial Officer on March 1. We thank our interim CFO, Bill Siemers for his dedication and service to AB, and I wish him all the best in his retirement. Now I'll turn the call over to Matt Bass, Head of Private Alternatives to discuss our middle-market lending business. Matt?

Matthew Bass - *AllianceBernstein Holding L.P. - Head of Private Alternatives*

Thanks, Seth, and good morning, everyone. I'm excited to discuss with you today AB's private markets business, with a focus on our corporate direct lending business, AB Private Credit Investors. Turning to Slide 14. Over the last decade, we've built a scaled private markets platform. Now approximately $61 billion in AUM, we're up about 9% year-over-year. Our focus is on credit-oriented strategies, a core competency that aligns with the firm's long-standing liquid credit business. Notably, with the acquisition of AB CarVal, which closed in 2022, AB now ranks in the top 20 private debt managers according to private debt investor. As highlighted at last May's Equitable Investor Day, our goal is to grow private markets AUM to $90 billion to $100 billion by 2027, supported by Equitable's $20 billion permanent capital commitment. At this level of AUM, private markets will represent more than 20% of our asset management revenues. We're well along on our path with private markets generating approximately 14% of asset management revenue in 2023, up from approximately 9% in the prior year.

Today, we're focusing on AB Private Credit Investors, or ABPCI, our middle-market private lending and sponsor fund finance business, which manages more than $17 billion in AUM. Turning to Slide 15, ABPCI is a scaled platform and team with a strong reputation. The team focuses on lending the businesses in the core middle market with further focus on sectors that exhibit our targeted investment characteristics. We have a strong track record of performance, which has been delivered to a diverse array of clients through a number of different perpetual vehicles. We're excited to highlight the differentiating aspects of this platform and our plan to execute on a focused organic growth strategy.

On the next slide, we introduce the team. We got to know Brent Humphreys and ABPCI's other founding team members in 2013 when we were looking to expand into direct lending. I would love to have Brent join us today, but he's in Europe this week meeting with clients. Following the list out of the team that led a comparable investment strategy at Barclays from 2008 to 2013, ABPCI was established in 2014 with the founding team of 5 and initial capital provided by Equitable. The team has grown to more than 75 professionals, facilitated by continued investment and strong retention. Notably, the team is based in Austin, Texas, although it has origination capabilities across the U.S. ABPCI currently manages more than $17 billion in capital, as I mentioned, and has invested nearly $25 billion since inception, spanning nearly 600 transactions and aided by our broad sponsor relationships.

Turning to Slide 17. The following factors differentiate ABPCI's investment strategy. ABPCI focuses on directly originated and privately negotiated senior secured loans, specifically loans to borrowers in the core U.S. middle market that are backed by leading financial sponsors. We invest in sectors that exhibit our target investment characteristics, such as recurring revenue, or sectors with defensive characteristics. This has led to ABPCI principally investing in sectors such as software and technology, digital infrastructure and services, health care and related IT, and business services. Lastly, we're highly selective on the transactions we execute, evident in our 4% historical close rate. Additional statistics at the bottom of this slide further dimension our market positioning and the profile of our borrowers.

Slide 18 highlights ABPCI's consistent long-term performance track record, underpinned by our proven asset selection strategy. As previously mentioned, ABPCI's target investment characteristics have led our team to invest principally in select sectors, which ultimately has contributed to the strong performance we have generated for our clients. We've realized consistent low double-digit returns for all 3 of our levered core institutional vehicles, including the predecessor fund the team managed dating back to 2008. Turning to Slide 19, let's talk about how we deliver investment solutions to our clients, along with some of our newer product innovations. Within our direct lending strategy, ABPCI manages perpetual vehicles, including 4 comingled accounts and 3 customized accounts with large institutional clients. The various funds generally employ the same asset selection strategy, and therefore, ABPCI typically has launched new funds to provide solutions to new client subsets.

For example, we launched our first direct lending fund in 2015, which provided a solution for taxable and super tax-exempt clients. In 2018, we launched the second direct lending fund to accommodate tax-exempt clients. Thereafter, in 2020, ABPCI launched a third private fund, an unlevered solution, principally to accommodate select non-U.S. clients on a tax-efficient basis. Looking ahead for this year, we anticipate launching a fourth private fund and will accommodate a wider range of non-U.S. clients. Furthermore, we plan to launch a public nontraded BDC in 2024, providing a solution to retail clients globally. This BDC will complement our existing private BDC, which we have historically distributed exclusively through the Bernstein private wealth channel.

Lastly, we plan to launch an insurance dedicated fund in 2024, with an emphasis on tax efficiency. Importantly, direct lending solutions are perpetual, which provides clients with ongoing exposure to the asset class and a number of other benefits. The perpetual nature of the funds also allow the platform to scale more easily without the launch of consecutive, more traditional, vintage-style funds. On the private equity solutions side, ABPCI co-manages a series of closed-end funds focused on private equity fund investments and minority equity co-investments in partnership with AVI Capital. Here, we have annual vintages dating back to 2019. And in early December, we announced the launch of a new NAV Lending strategy, supported by an initial $500 million commitment from Equitable.

Slide 20 shows the robust organic growth that we have realized over the past 9 years. We've grown the platform from just $500 million at the time of the initial team lift out, to over $17 billion today, or a CAGR of nearly 50% over the last decade. We believe this growth reflects ABPCI's ability to generate strong performance in our core investment strategy delivered to an expanding client base and perpetual funds through AB's global distribution. We're excited to make meaningful progress towards our 2027 targets through expanding our existing solutions, accessing new client segments, and extending into adjacencies.

Let's discuss each of these on Slide 21. We plan to continue to scale our core strategy through a combination of factors: first, growing existing vehicles and solutions, in particular, our perpetual funds, thereby providing additional capital for our core investment strategy. Second, launching new vehicles and solutions, such as our expected new launches for 2024 to further penetrate existing client channels and access new ones across Institutional, Private Wealth and Retail, and Insurance. The final part of our growth strategy is to extend into adjacencies as exemplified by our recently announced extension into NAV Lending. We will continue to work with clients, including Equitable, to assess future adjacencies that leverage our core capabilities.

To summarize, we're excited about the breadth and strength of AB Private Credit Investors. We have a strong team with proven performance and a well-structured platform with evergreen vehicles serving a wide array of clients, allowing us to drive consistent growth. We have an organic growth plan that we are executing. That contributes to our private markets target of $90 billion to $100 billion in AUM by 2027, all supported by Equitable's permanent capital commitments, AB's Private Wealth business and AB's broad, global Institutional and Retail footprint. Now, I'll turn it over to Bill to walk through the financials. Bill?

William Robert Siemers - *AllianceBernstein Holding L.P. - Interim CFO & Controller*

Thanks. Let's start with the GAAP income statement on Slide 23. Fourth quarter GAAP net revenues of $1.1 billion increased 10% from the prior year period. Operating income of $238 million increased 17% and operating margin of 20.6% increased by 60 basis points. GAAP EPU of $0.71 in the quarter increased by 20% year-over-year. For the full year, GAAP net revenues of $4.2 billion increased 3%. Operating income of $818 million increased by $3 million and operating margin of 19.1% decreased by 240 basis points. Full year GAAP EPU of $2.34 decreased by 13% year-over-year. 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 on our adjusted results, which we provide in addition to and not as a substitute for our GAAP results. Our standard GAAP reporting and a reconciliation of GAAP to adjusted results are in our presentation appendix, press release and 10-K. Our adjusted financial highlights are shown on Slide 24, which I'll touch on as we talk through the P&L shown on Slide 25.

On Slide 25, beginning with revenues. Net revenues of $871 million increased 9% versus the prior year period. For the full year, net revenues of $3.4 billion increased by 1% versus 2022. Fourth quarter base fees increased by 3% versus the prior year period as 8% higher average AUM was offset by a lower fee rate. The fourth quarter fee rate of 39.6 basis points decreased 4% year-over-year, driven by mix, reflecting organic growth into lower fee rate fixed income products and a full quarter impact from last December's large, low-fee custom target date inflow. The full year fee rate of 39.9 basis points was flat year-over-year. Fourth quarter performance fees of $51 million increased by $33 million from the prior year period and full year performance fees of $126 million were up $35 million from the prior year, both driven by higher fees at private credit services and AB CarVal.

Fourth quarter revenues for Bernstein Research Services of $100 million were flat with the prior year period. Full year revenues of $386 million declined 7%, reflecting declines in customer trading activity across all regions as a result of market conditions. Fourth quarter dividend and interest revenues increased by 4% versus the prior year due to higher dividends and interest earned on broker-dealer investments. At the same time, fourth quarter broker dealer interest expense associated with our private wealth brokerage accounts decreased by 22% due to lower interest paid on customer balances. For the full year, dividend and interest revenues increased 103% versus last year due to higher dividends and interest earned on broker-dealer investments, while broker-dealer interest expense increased 62% due to higher interest paid on customer balances.

Moving to adjusted expenses. All in, our total fourth quarter operating expenses of $617 million were up 10% year-over-year. Full year operating expenses of $2.4 billion rose by 2% versus the prior year, well below inflation levels. Fourth quarter total compensation and benefits expense was up 12% versus the prior year period, driven by a 9% increase in revenues and slightly higher compensation ratio of 47.7% of adjusted net revenues as compared to 46.4% in the prior year period. Our fourth quarter compensation ratio of 47.7% came in below our expectations, reflecting the fourth quarter market rally and continued discipline in our compensation process. For the full year, compensation and benefits increased by 2%, driven by a 9% increase in base compensation, offset by a 13% decrease in commissions. For the full year 2023 compensation ratio was 49.0%, 60 basis points above the prior year as wage inflation outpaced a 1% increase in revenues.

We entered 2024 with AUM levels 7% above the 2023 average, driven by 2023 as market rally. Given market conditions, we plan to accrue at a 49.0% compensation ratio in the first quarter of 2024, below last year's first quarter level of 49.5%, and may adjust further throughout the year. Promotion and servicing costs increased by 18% from the prior year period, driven by higher T&E and firm meetings. For the full year, promotion and servicing costs increased 2% -- or 1%, excluding AB CarVal, for which we had 4 quarters in 2023 versus 2 quarters in 2022, as higher T&E and firm meetings were partially offset by lower trade execution and clearance. G&A expenses were up 2% in the fourth quarter versus the prior year period, below inflation levels. For the full year, G&A increased by 1% and was down 1%, excluding CarVal. Higher office and related expenses and professional fees were offset by lower portfolio services expenses and a favorable FX impact.

Looking forward to 2024, we are targeting promotion and servicing and G&A growth up low single digits, below inflation levels. We remain committed to managing expenses given a continued volatile macroeconomic environment. Fourth quarter adjusted operating income of $254 million increased by 6% versus the prior year period, while full year 2023 operating income of $951 million decreased by 1%. Fourth quarter adjusted operating margin of 29.2% decreased 80 basis points year-on-year, while full year 2023 operating margin of 28.2% decreased 70 basis points from 2022. Below the adjusted operating income line, fourth quarter interest expense increased by $4 million from the prior year period and for the full year. Interest expense increased by $36 million, reflecting higher interest rates and higher average borrowings.

As outlined in the appendix of our presentation, fourth quarter earnings exclude certain items which are not part of our core business operations. In the fourth quarter, adjusted operating earnings were $16 million above GAAP operating earnings due to acquisition-related expenses and interest expense. Non-GAAP EPU was $0.06 above GAAP EPU, primarily reflecting acquisition-related expenses. The fourth quarter effective tax rate for ABLP was an approximate 1% tax credit, reflecting a onetime tax benefit of $22.5 million from the release of a valuation allowance on a capital loss tax asset. For the full year, the effective tax rate for AVLP was 3.6%. This compares to 4.9% in 2022, lower principally due to the aforementioned valuation allowance release. Our guidance for ABLP's effective tax rate in 2024 is a range of 7% to 7.5%, reflecting our expanding business in non-U.S. markets, some of which are experiencing higher tax rates. We also expect the Bernstein Research JV transaction to trigger a onetime tax gain in 2024. Post 2024, a normalized effective tax rate would be a range of 6% to 6.5%.

For the full year 2023, the Nashville relocation generated $23 million of savings or $0.08 per unit, with compensation-related savings more than offsetting increased occupancy costs. This compares with $19 million of savings in 2022. We expect that Nashville relocation will be accretive for the full year 2024 and are on track to realize the full annual savings of approximately $75 million in 2025, following the lease expiration at 1345 Sixth Avenue in December 2024. With that, we are pleased to answer your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from Alex Blostein with Goldman Sachs.

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

Seth, everybody. I appreciate the extra discussion around private lending, definitely really helpful and an important driver for the firm. So, I guess on that note, you highlighted a number of new initiatives in private markets for 2024. And based on the public data, it looks like the retail dynamics are still quite strong off to a pretty good start in January. So, just maybe zooming out, what are your guys' expectations for organic base fee growth for 2024? Since it feels like there's some positive dynamics on the fee rate that are also unfolding in the business.

William Robert Siemers - *AllianceBernstein Holding L.P. - Interim CFO & Controller*

Alex, this is Bill. For 2024, we expect the fee rate -- It will continue to be mix dependent. In '23, as you know, we experienced organic growth in lower fee products, such as money markets, muni SMA or seeing outflows in higher fee active equities. So, I mean, we're going to continue to be dependent on the markets on interest rate movements during the year and investor risk and return appetite. I mean, on the positive side here, it's also institutional, as we've mentioned, is supported by a high private alts exposure, with the pipeline fee rate at around 3x the channel average. So, there's no specific guidance at this point.

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

I guess, maybe just asked another way, maybe keeping the fee rate aside, if we don't want to go to the like organic base growth discussion. But in terms of the flows and the organic base -- organic growth in the business between good momentum in Retail and obviously, a lot of these new initiatives that you're about to roll out in Private Markets. I was just curious if you could give us a range of kind of what your expectations for the flows organic growth for the year.

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

Hi, Alex, it's Onur. Thanks for the question. Yes, we remain confident about our sales growth in '24. We have good momentum starting the year on the sales front. And this is wide-based in multiple businesses as a continuation of the last few years, right? We delivered positive 5 consecutive years of organic growth in U.S. Retail. We delivered 3 years of organic growth in Private Wealth. As you know, the Asia ex-Japan taxable fixed income had a very strong momentum as well. So, a number of our strong engines are humming. So, we feel very good about the sales prospects. As you mentioned on private alts, we have a strong pipeline. As also Bill mentioned, and we are adding more solutions to that to participate in high-growth opportunities, whether it's Retail, whether it's the Insurance segment, which is a strategic priority for us, and we are seeing traction there. Obviously, there will be some continued pressure on the Institutional side. It is concentrated in a narrow set of equity strategies. We had some recent performance challenges, and it's very hard to predict those outflows given it tends to be individual mandates and lumpy. So strong confidence in sales, hopefully contributing to positive flows with the uncertainty of the institutional side in a narrow set of equity strategies.

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

Got you. That's great. Yes, that's what I was looking for. For my follow-up, one of the products you mentioned in private credit was around, I think, nontraded BDC that you're likely to launch this year that will be more broadly disseminated. I guess, when you look at that part of the market, it's gotten really crowded over the last 12 to 18 months, there are some established players, there are some traditional firms that are entered the market with new products. What gives you confidence, I guess, that this is the right time to go after that opportunity? And what makes you feel like that you guess you'll be successful in that product? And is there anything differentiated with respect to that nontraded BDC that doesn't already exist out there? Like what would be the pitch?

Matthew Bass - *AllianceBernstein Holding L.P. - Head of Private Alternatives*

Sure. So, look, I think stepping back, first of all, hopefully, based on the commentary on ABPCI, we're able to kind of articulate the competitive advantage and edge in the market of it's historical track record kind of the consistency of the team, our focus, our sector-led focus, our focus on the core middle market, et cetera. So, we believe we have a right to win from -- certainly from an investment perspective.

And now -- look, as it relates to the BDC as a vehicle, the market, yes, there have been a lot of launches and a lot of capital raise. But the backdrop there as well is a very large growing market for private credit, which has gone from -- call it, 15 years ago, a niche asset class into a market that rivals the size of the BSL market. And there are continued tailwinds for growth there from a supply perspective, and also from a demand perspective as retail interest and allocations increase over time. So, we think the long-term supply/demand dynamic is solid. But -- and we have a right to win from a capability perspective. This will be our second BDC. We have a private BDC, as I mentioned, in our private wealth channel. So have experience with the wrapper and really distributing the sort of product to individual investors and their needs.

Operator

We will take our next question from Bill Katz with TD Cowen.

William Raymond Katz - *TD Cowen, Research Division - Senior Analyst*

I appreciate the added discussion, and Bill, best of luck in your retirement, a bit jealous I'll say. A couple of questions. Maybe of big picture down, Matt, for you. I just really appreciate the extra insight. One of the building debates for private credit is just sort of the reentry of banks through the leverage lending and the high-yield market has a potential impact to volume and/or pricing. I was wondering if you could address how you're positioned to potentially compete against a wider set of lenders? And then secondly, I wonder if you could just expand a little bit on the opportunity set into the third-party insurance sector, in particular?

Matthew Bass - *AllianceBernstein Holding L.P. - Head of Private Alternatives*

Sure. Happy to. I guess on the first question, and I'll kind of team up with Onur on the second one as well. As it relates to the first question, the growth I mentioned in private credit, rattling the size of the BSL market now. A lot of that has been driven by share-shift deals that have historically been executed in the BSL market coming into the private market, and that's either driven through ability to execute quicker, more flexibility, certainty of close. Now some of that's secular. Some of it is certainly cyclical, and we've seen banks become more offensive and aggressive and we've seen a lot of releases recently about banks moving more closely back into that market. So again, it's a trend and there'll be some cyclical ups and downs.

As it relates to our business specifically, we have a focus on the core middle-market. There are a lot of ways to define that. But from an average cash flow perspective, median cash flow perspective, we're around $50 million of median EBIDTA and that, combined with our sector focus and the continuity of the team gives us - we believe - a well-entrenched position in that market. We can go upmarket in certain instances, but we focus on the core.

As it relates to the Insurance side - and Onur definitely chime in, given the focus - a key part of our growth strategy - so this is part of the CarVal thesis, it applies to our other businesses as well - is leveraging existing investment capabilities that our teams have from an origination or asset class perspective into lower cost of capital strategies. So think private investment-grade credit as an example. So CarVal historically has invested in markets such as residential mortgage, consumer finance, transportation in the context of higher risk, higher return strategies, so the flagship fund. We'll continue to do that, but increasingly working on delivering those investments to insurers on an unlevered basis, or the senior part of the capital structure. So, the residential mortgage mandate with Equitable is a good example there, that Seth previously mentioned, where we were able to leverage our existing origination capability in that asset class and deliver those loans on a whole loan basis to Equitable. And we think that to be interesting to other third-party insurers owing to attractive capital treatment, et cetera, and there are other asset classes as well that we're actively looking at.

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

Yes. Thanks, Matt. The only a couple of things I would add. One, obviously, a recap for Bill. As you know, Insurance is a large portion of our assets. Roughly 1/4 of our assets, AUM is managed on behalf of insurance clients. So, it's core to our business. And second, as Matt briefly mentioned, we have the ability and the expertise to marry these specialized origination engines with insurance-friendly wrappers. So that structuring is very important. -- whether it's specialty finance, resi-mortgages, NAV Lending, rated feeders for middle-market lending. We have deep expertise in terms of packaging those solutions in a capital and regulatory efficient way for the insurance companies, both in the United States as well as globally. And that, I think, creates a solid foundation for our continued growth in the insurance space.

William Raymond Katz - *TD Cowen, Research Division - Senior Analyst*

Great. And just as my follow-up, Seth, for you, I was just sort of wondering what was your and the Board's decision to bring Miss Marks in, given where I think maybe the evolution of the AllianceBernstein model might sit? And then within that, given that your margin today is sort of bucking up against your 30% margin you laid out at the Investor Day more recently. How should we be thinking about that in light of -- just obviously a higher level of assets and just your incremental cost guidance, is 30% now a bit of a stale outlook ex-markets? Or is there more opportunity here to get to a higher run rate margin?

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

Bill, thanks very much for the question. Good morning, everybody. I'm going to actually defer to Bill to talk about the margin impact. But let me touch on Jackie and her role. We have been blessed for a number of years by having an incredibly capable and well-regarded controller who has been CFO a couple of times now on an interim basis. And it's precisely to reinforce the skills and disciplines that Bill has embedded into our team that I found Jackie so compelling. She has a very deep skill set and experience in the controller's functions generally but also in global treasury and tax as well as her skill sets in strategy. So, I think she brought a package of skills or brings a package of skills together that are quite complementary to what we have in the firm. And I think she has the leadership skills to move forward without skipping a beat as Bill moves on to the golf course. So, I would simply say that we're very pleased that she's arrived, and Bill will transition after this quarter. And so, I think she's well positioned to take the role forward. I think with respect to the relationship with Equitable. I think the skill set is quite complementary to what the Equitable team would be looking for. I think she will be an added voice with respect to advocacy for AB and its strategic goals and needs. And I think we're off to a pretty good start. So let me pass it over to Bill to give you a little more color on our expectations on margin.

William Robert Siemers - *AllianceBernstein Holding L.P. - Interim CFO & Controller*

Thanks, Seth. Yes, Bill, I mean, we don't give - as you know - specific margin targets, particularly for the next year, but we did give the topside 2027 targets at the Equitable Investor Day. But that said, yes, I mean, we are starting at a better AUM level this year than last year. AUM starting point being almost $80 billion higher. But with that, I mean, we're going to continue to invest in our business for growth. And then we have to continue to remain competitive and pay our people for performance and then manage all our non-comp expenses. So, with that said, from the Investor Day, we mentioned with the BRS JV, we were going to -- on a run rate going forward, annual basis, get 200-250 basis points of improvement. -- that's definitely going to come into fruition this year. To what extent we don't know, it's according to when the transaction takes place. So, we might only get a piece of that.

And then as we've mentioned, the completion of the relocation is going to add another 100 to 150 bps. That will actually trigger first thing next year. Right now, we're in the Hudson Yards and also 1345. So, I mean ,once we out of 1345 this year, that will trigger. And then, of course, the other remaining stuff is just growth investments and private alts rounding out that number. But the big thing to note also is all these improvements that I'm talking about, I mean, that's potential benefit without market improvements in there right now. I mean, so we put some market improvements in there, we would be able to beat those numbers.

Operator

And we will take our next question from Craig Siegenthaler with Bank of America.

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

So, when your perspective on how you think your fixed income lineup is positioned for money and motion duration extension with future Fed rate cuts and the yield curve steepening? And what I'm getting at is, do you think you're missing, or light, on any capabilities like core total return that could limit your ability to win some of the money motion?

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

Craig, thanks for the question. Look, I think it's clear that we're at the end and the issue of the right of the raises and rates and the issue now is when does the Fed start easy. We had thought it's later in the year all along. And the recent strength we've seen in payrolls and ISM don't change our expectations in that regard. And while we do see the economy slowing, we do think that we're in a soft landing for the first time that I can remember. And so, I'm going to rejoice in that. And what we're seeing quite clearly is that investors are now increasingly comfortable with extending duration and moving into credit. We're seeing that most definitively offshore and the very strong growth that we've had in Asia, and we think that continues. And in fact, that strength, I think, reflects both increased comfort with extending duration, but -- and having higher yields which between AIP and GH -- American Income and Global High Yield range between 5% and 7% today.

But I think what's most interesting is that the alternatives available to our local investors are less attractive to the mainly onshore Chinese equities. I think that's a pretty compelling case for us, and we hope to ride that. I think retail in the U.S., we're quite well positioned with high-net-worth individuals who are focused on the municipal marketplace to tap into that marketplace, we've been building share - as you know - for years, and we think we have a differentiated product proposition in how we build these separately managed accounts. Which is where we see all the growth there in ETFs that I think will really drive pretty strong demand over the course of this year and hopefully into next.

We also feel that we benefit from an institutional capability and with insurance companies that will continue to pay us dividends as they seek better ways of managing public market investment grade credit. Our systematic strategies have proven to have very strong risk return characteristics and we can do so at a quite a competitive cost, and we're seeing increasing interest there, not just in the U.S. but really outside the U.S. as well. But it's certainly true, Bill(sic) [Craig], that we don't have an installed base of traditional DB/DC ag-based core strategies, although we think we have a pretty compelling product proposition that may be better at addressing our clients in particularly are becoming increasingly cost competitive. So, I'm going to actually ask Onur if he has anything to add to that answer.

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

Great summary. 2/3 of our institutional sales in the fourth quarter was fixed income. So, we are definitely showing strength in institutional and fixed income as well. Seth, perfect to summarize the strength in retail across U.S. and international markets. I would also highlight that the growing ETF product range we have, where we participate in core and other taxable and tax-exempt fixed income categories. We are very pleased with the build-out and the asset capture of our ETF franchise, and that should help us increase our penetration in taxable fixed income, including core and core plus categories as well. Again, early days, but the signs are very encouraging, combined with our distribution power in U.S. retail.

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

And I actually have a credit one, so I might take advantage that Matthew Bass is on the line, too. But I know you launched a NAV Lending strategy last year, and we know the LTVs are quite low in this product from a lender standpoint. But I wanted to see if you think it's a good idea for buyout funds to cross-collateralize their portfolio companies in order to get early cash flow events to their LPs.

Matthew Bass - *AllianceBernstein Holding L.P. - Head of Private Alternatives*

Yes, sure. So I think stepping back, there are various use of proceeds for NAV loans. And I think considered along with a kind of growing and functioning secondaries market? Is it just another way to provide liquidity to a growing private equity market, right? So, think of it holistically. NAV Loans have been around for a while. They can be used offensively, to enable portfolio companies to make acquisitions when capital is not available or funds outside of its investment period could be used defensively to delever portfolio companies at a lower cost of capital. It could be -- also be used, to your point, as a liquidity tool for GPs to return capital to LPs. So, we would look at all 3 types of transactions. Ultimately, it depends on the quality of the sponsor and the underlying. But there are various use cases that may or may not make sense for different sponsors based on the particular situation. So very, very, very situation-specific, I would say.

Operator

And we will take our next question from Dan Fannon with Jefferies.

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

Wanted to talk about the private wealth channel and adviser growth and productivity increased year-over-year. I was just curious, as you think about 2024, how those metrics should track and maybe any changes or plans to accelerate hiring or growth in that segment?

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

Thanks for the question. Yes, you're right in pointing out to our consistent growth pattern with the financial adviser, which we now call Wealth Advisors, and the productivity along with that. We take it through the cycle mindset to growing our client-facing headcount, so we'll continue to stay at that same pace. Obviously, it takes time for the new wealth advisers to become fully productive, but we have high confidence in our long-standing and well-regarded training programs. As you know, we have a heavy bias towards organic growth by hiring new advisers to the industry, which takes time to grow into our culture, but then delivers very strong outcomes, as you have seen on the sales productivity side. In addition to that, we continue to be open-minded about financial advisers with existing clients and books as well as adjacent opportunities in the RIA space. Again, we are always looking for the best value for our shareholders, and we'll continue to stay on the organic growth path and be open-minded about any add-ons.

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

And then, Seth, just as a follow-up on your active ETF business. I know it's small, but you've launched a bunch of products here in 2023. How do you think about that landscape over the next several years and your role within that? And kind of - obviously, somewhat the growth potential of those products could be.

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

Yes. Let me start, Dan, and then I'll pass it over to Onur to give more color to it. In our view, ETFs are a better wrapper for many of our clients. And we think that increasingly, and in fact, it's been the case for AB, we are going to introduce new strategies via ETFs to the extent they're feasible from an underlying securities perspective to do so given their better tax treatment for taxable investors as well as just the day-to-day perceptions of liquidity and transparency, which we think actually offers real advantages and comfort to our investing clients. What I would say to you is we continue to plan to expand the range, particularly focused on new strategies and where we see differentiated opportunities that align well with the capabilities that we have. So, to the extent, for example, we see tax aware fixed income as a place where we have an edge, and it's a very efficient tax vehicle for our clients, we'll launch strategies like that. And TAFI which is our vehicle, has been a successful product in that array. But I think you'll -- should expect to see most of our issuance activity through ETFs going forward. Onur, please jump in.

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

No, thank you, Seth. Yes, I mean, our strategy is very clear. We look at basically areas where we can differentiate ETFs allow us to complement, supplement our SMAs, which has been very successful in U.S. retail. So, we typically see that pairing quite powerful in the fixed income space, for instance. We also take advantage of conversions when it makes sense. Obviously, like any vehicle, ETFs have their limitations, particularly in the retirement plan space. And as a result, we are mindful about that. But in general, particularly in the nonqualified space, ETFs remain our dominant vehicle preference, along with SMAs and CITs, where we see the future. And then internationally, it's a little bit more nuanced picture for the active ETFs. The regulatory framework is now catching up, and there might be opening up opportunities where we could potentially leverage our distribution reach to disrupt some markets by offering ETFs, but it's more exploratory at this stage, and we don't have any concrete plans. I would say it's an option on the table. Our primary focus remains in the U.S., and you will see us build on the good momentum that you have seen in the last 1.5 years with the 12 ETFs and growing.

Operator

And we will take our next question from John Dunn with Evercore ISI.

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

Maybe -- could you expand a little more on like the product demand trends you're seeing in retail and institutional overseas, maybe ex American Income and Global High yield funds?

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

Sure. Happy to take that. As you know, in addition to Asia, ex Japan, we have a strong franchise in Japan. We continue to remain very strong in U.S. equities. We have a very dominant position in large-cap growth that continues to be a strong area for us. So definitely, want to highlight outside Asia ex Japan outside the AIP and global high-yield. Definitely, our U.S. -- that's right, our EMEA business tends to be skewed towards equities as well because the European buyers like the U.S. and global equity products. We continue to see demand in some of the strategies that we offer in the UCIT format, sometimes more lower volatility kind of strategies that are a little bit more defensive. For instance, would be an example of that. And then definitely, with the nontraded BDC, we would be targeting the U.K. and Swiss market along with the Asian market. So definitely, we see demand towards private credit. And then finally, we have a strong position in LatAm with the pension systems, whether it's in Mexico with Afores or with the Chilean pension systems, and that tends to be a pretty strong demand for equities, including emerging markets, given their bias towards emerging markets.

And then on the institutional side - we touched on it - but private market is a great focus area for us, and I see that as a global phenomenon. Again, there might be different self-patterns when you think about different geographies and different types of clients, instruments versus pension plans versus storing wealth, but depending on the risk appetite constraints, yield expectations across middle-market lending, real estate lending as well as specialized strategies through CarVal we see demand.

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

And if I could just jump in. I think longer term, China does present a real opportunity for us. As you may know, we did get our license from the Chinese regulator at the end of the year, and we're hopeful to launch our first strategy in the near term. Our China/Asia strategy sentiment is not great, obviously, in China, but we think there's strong demand, ultimately, and we plan to launch a number of strategies over the course of the next 2 to 3 years there, which would both reflect equities as well as fixed income.

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

Got it. And then there's been recently an uptick in private markets firms deciding to join traditionals or other larger old firms. Maybe just what -- you guys see a lot of activity. What are you seeing? And any change in your appetite for maybe adding teams or even bolt-ons?

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

Well, let me start, and Matt or Onur may join in. But my view is we have a pretty full set of capabilities today in private alts, for example, while we've had a good start with CarVal, there's a lot more work to do there and to get private credit investors up in our commercial real estate business up to their full scale. That doesn't mean there aren't niche services and capabilities we would not be interested in. We do when we look at them. But I think they would be smaller in size and very specific in terms of the needs, at least at the moment in private alts. Switching over to more traditional, as I think we've also disclosed, we have acquired a very talented team in Europe focused on global growth and has an excellent European capability as well. And so, we're -- it's early days there, but we're upbeat as to the potential of that service. The short summary is we have -- we always are looking for teams. We're always looking for ways of refining and updating our product suite, but there's nothing in, and/or large at the moment, we're looking at.

Operator

And ladies and gentlemen, that is all the time we have for questions today. Mr. Griffin, I will now turn the call back over to you.

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

Thank you, everyone, for participating in the call today. Please reach back out to Investor Relations with any questions and have a great day.

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