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AB.N - Q4 2022 AllianceBernstein Holding LP Earnings Call

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PRESENTATION

Operator

Thank you for standing by, and welcome to the AllianceBernstein Fourth Quarter 2022 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 AB, Mr. Mark Griffin. Please go ahead.

Mark Griffin - *AllianceBernstein Holding LP - Head of IR*

Thank you, operator. Good morning, everyone, and welcome to our fourth quarter 2022 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; and Kate Burke, COO and CFO; Onur Erzan, Head of our Global Client Group and Private Wealth; and Bill Siemers, Controller and Chief Accounting Officer, 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 10. 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 Bernstein - *AllianceBernstein Holding LP - CEO, President & Director*

Good morning, and thank you for joining us today. Despite a fourth quarter market rally, 2022 was a challenging year for diversified investors with equity and debt markets both down double digits and fixed income markets posting their worst annual returns on record. Our financial results contracted along with markets with full year average AUM down 6%, revenues down 8% and adjusted EPU down 24%. Nevertheless, I'm very proud of what our teams are able to accomplish.

Our globally diversified platform grew our active assets organically for the fourth consecutive year, continuing to buck industry trends. Our effective fee rate improved for the second straight year due to a mix of organic growth and due to the CarVal acquisition. And we executed on multiple strategic transactions, growing in private alternatives, supported by Equitable Holdings and embarking on a promising growth opportunity for Bernstein Research.

Let's get into specifics, starting with the firm-wide overview on Slide 4. Fourth quarter gross sales of $30.9 billion declined by $9 billion or 22% from a year ago. We saw slight firm-wide active net outflows in the quarter. For the full year, gross sales of $115.6 billion were down 23% from the record prior year. And we posted full year active net flows of $900 million, our fourth consecutive year of active organic growth. Year-end assets under management of $646 billion declined 17% year-over-year. Fourth quarter average AUM of $636 billion was down 16% versus the prior year, while full year average AUM of $686 billion declined by 6%.

Slide 5 shows our quarterly flow trends by channel. Firm-wide, fourth quarter net outflows were $1.9 billion with net inflows in institutional offset by net outflows in retail and private wealth. Retail gross sales were $14.2 billion, with net outflows of $3.4 billion. Institutional sales were $12.6 billion, supported by a $6.4 billion custom target date mandate, generating net inflows of $1.7 billion.

In Private Wealth, gross sales were $4.1 billion with slight net outflows of $200 million as we continue to grow engagement in the ultra-high net worth cohort, supported by a focus on pre-liquidity planning.

Slide 6 shows annual net flow trends. In a challenging year for active managers, gross sales of $116 billion led to firm-wide net inflows of $900 million, excluding AXA redemptions. Retail sales of $66 billion were 34% below last year's record levels. Net outflows of $9.5 billion ex-AXA were driven by taxable fixed income, offset by organic growth in active equities and municipals. Institutional sales increased to $32 billion, the highest level since 2008, driven by $16 billion in fundings related to 2 institutional custom target date mandates. We had our fourth consecutive year of organic growth in this channel with net inflows of $8.6 billion ex-AXA. And Private Wealth had gross sales of $17.5 billion with net inflows of $1.7 billion, the second straight year of organic growth in the fifth of the last 7.

Investment performance is shown on Slide 7. Starting with fixed income. Despite a fourth quarter rally, fixed income markets fell in tandem with equity markets in 2022 as central banks battled inflation. Interest rates soared and recession fears mounted. Longer-term yields in developed markets grew sharply, leading global treasury turns to fall 10.8% during the year. All credit sectors were challenged relative to government bonds. Securitized assets outperformed other credit sectors, while emerging markets hard currency sovereign and corporate bonds trailed. In this environment, our fixed income performance lagged with 20% of our fixed income assets outperforming over the 1-year period while 53% and 70% of assets outperformed over the 3- and 5-year periods, respectively.

As we said last quarter, our 1-year underperformance reflected our positioning in global credit, as most of our retail fixed income strategies are broader based in just the U.S. and our focus. The U.S. outperformed last year, making peer comparisons more challenged. Municipal performance was impacted by an overweight to mid-grade and lower-weighted municipals and by overall yield curve positioning. Encouragingly, in our retail channel, we've seen Asian investors supported by our global financial institution partners begin to rotate back into fixed income on the back of better valuations and a greater comfort with exposure to duration now that the Fed appears to be nearing the end of the interest rate hiking cycle.

Turning to equities. U.S. equity markets advanced during the fourth quarter with the S&P 500 up 7.6%, lessening the full year's 18% loss. For the quarter and year, growth underperformed value as higher rates weighed on longer-duration stocks. The Russell 1000 Growth Index returned 2.2% for the quarter, bringing the year-to-date loss to 29.1% versus the Russell 1000 Value Index's return of 12.4% for the quarter and negative 7.5% for the year.

The majority of our equity assets outperformed with 59% of AUM outperforming for the 1- and 3-year periods and 77% for the 5-year period. Our 1-year performance improved sequentially as our U.S. large cap growth composite beat the Russell 1000 growth benchmark aided by an overweight to health care sector and underweights to mega-cap technology. In this environment, we're maintaining discipline on identifying high-quality, profitable companies with sustainable business models and large recurring revenue streams, all defensive characteristics, which can help buffer against spikes in market volatility.

Quality companies with strong pricing power often demonstrate consistent profitability even in inflationary environments. Stable companies have cushion on the downside because they typically have lower beta or sensitivity to the broader market and traditional growth firms.

Now I'd like to review our client channels, beginning with retail on Slide 8. Fourth quarter sales were $14 billion, down $13 billion from last year's record fourth quarter, but up sequentially. Annual sales of $66 billion were down $34 billion from last year's record level. The annual redemption rate reached a historical low of 24%. Fourth quarter net outflows were $3.4 billion, contributing to full year net outflows of $11 billion, the latter driven primarily by taxable fixed income, a dynamic seen industry-wide.

Despite the challenging environment, active equities grew organically for the sixth straight year. Our municipals grew organically for the 10th straight year. The latter led by our SMA tax aware and our SMA custom strategies. The bottom left graph shows that we are taking market share in both businesses, with AB's net inflows clearly bucking the trend of industry wide outflows.

From a regional perspective, U.S. retail grew organically for its fourth consecutive year and Japan grew for the fifth straight year. Several flow rankings are shown on the bottom right. For the year, AB ranked 10 of 456 in U.S. equity flow rankings with positive flows in the U.S. led by large cap growth.

A few words on flows. Our January 2023 AUM, which will be released today after market closes, benefited from net inflows. In retail, we saw accelerating inflows into American Income, a fund that is ranked first in flows in the U.S. dollar flexible bond category for the last 2 quarters. We also saw continued strength in muni SMAs.

Turning to Institutional on Slide 9. Fourth quarter gross sales of $12.6 billion included $6.4 billion from our previously disclosed low fee custom target date mandate. Full year sales were $32 billion, the highest since 2008, driven by $16 billion in fundings from 2 custom target date mandates. 2022 was the fourth straight year of net inflows in institutional, positive even net of AXA redemptions in each of the last 3 years. Net inflows were $6.3 billion in the year or $8.6 billion, excluding AXA. Our effective fee rate continued to improve in the fourth quarter, driven by the 10th consecutive quarter of net inflows into alternatives and multi-asset.

Our institutional pipeline declined to $13.2 billion at quarter end with $12 billion funded in the quarter, including $1.5 billion of AB CarVal fundings, including Credit Value Fund V, CLO-8, and Clean Energy. Private alternatives comprise about half of the additions to the pipeline in the quarter, notably middle market lending and EuroCred. And the pipeline fee rate remains more than 3x the channel average, driven by private alternatives, which comprise more than 80% of the annualized fee rate. In January, we received an additional $1.3 billion commitment for U.S. credit from Equitable. Part of their $10 billion permanent capital commitment to improve the returns while growing our higher fee longer-duration private markets business, for which well over half of the $10 billion has been deployed in our strategies at year-end. Thus far, in 2023, we have seen an increase in institutional client inquiries, which are broad-based and well diversified by asset class, style, cap, geography and client type.

Moving to Private Wealth Management on Slide 10. Fourth quarter gross sales declined by 21% year-over-year and increased slightly sequentially. Full year gross sales of $17.5 billion declined just 4% versus a strong prior year with productivity remaining historically elevated, down 2% year-over-year. Full year redemption rates improved to 13%, down 160 basis points from last year. Despite slight net outflows in the fourth quarter, the full year saw net inflows of $1.7 billion, the second year in a row of organic growth and the fifth and the last 7.

Our client mix continues to shift toward our ultra-high net worth $20 million and over clients, which remain our fastest-growing cohort. This cohort is a particular focus of our pre-liquidity event planning efforts from which AUM generation in the fourth quarter well outpaced an industry-wide M&A volume contraction of more than 50%. For the full year, commitments of $1.8 billion to private alternative products were up 10%, which included the launch of Bernstein Impact Alternatives, a new third-party partnership.

Looking to 2023, we have a robust set of new product launches planned, including AB CarVal's clean energy, credit value and transportation. Our proprietary direct indexing strategy grew by 62% year-over-year and 11% sequentially, while ESG AUM grew by 6% organically.

I'll finish our business overview with the sell side on Slide 11. Fourth quarter Bernstein Research revenues of $100 million decreased by 12% year-over-year and were up 10% sequentially. Full year revenues decreased by 8% year-over-year. The year was characterized by a stronger first half followed by a weaker second half as institutional trading volumes were constrained amidst global uncertainty. We continue to grow research checks driven by high single-digit growth at Autonomous.

In November, we announced the strategic decision to enhance growth opportunities for Bernstein Research Services through contributing the business into a joint venture with Societe Generale's cash equities business. This announcement has been well received by our talented global research teams who recognize the potential in adding our new partner's equity capital markets, derivatives and prime brokerage capabilities. We continue to expect the transaction to close before the end of 2023, subject to regulatory consultation and approval in several countries, and we anticipate disclosing financial details closer to that time.

I'll now review progress against our growth initiatives on Slide 12. Our investment performance was mixed in 2022. While disappointing in fixed income, the majority of our equity assets outperformed. For the 3- and 5-year periods, performance was solid with 70% or more of both asset classes outperforming over the 5-year period. I'm proud of our teams for driving active organic growth last year for the fourth consecutive year despite challenging financial market conditions.

Robust growth in custom target-based solutions and private alts led the way with active equities and munis also contributing to retail. Our effective fee rate improved for the second straight year, influenced by both the mix of organic growth and the strategic acquisition of CarVal. With the support of our strategic partner Equitable, we launched our active ETF business and closed on the CarVal transaction, which significantly enhanced diversification of our $56 billion private markets business, up 57% year-over-year. Financially contracting asset prices took their toll as we posted a 3-year rolling incremental margin of 35%, below our long-term target range of 45% to 50%.

Full year adjusted operating margin of 28.4% declined 520 basis points year-over-year with adjusted earnings and unitholder distributions down 24% versus the prior year. We entered 2023 facing pressures on our revenues and margins with AUM 17% lower year-over-year, and we expect financial market conditions will remain volatile. Accordingly, we recently took measures to reduce headcount that affected a small portion of our global employee base.

As I look forward, our team's accomplishments against our strategic initiatives in 2022 give me confidence for 2023. With continued diligence in managing compensation and other costs, we remain positioned to capitalize on growth opportunities ahead of us. These key initiatives include growing our active ETF offerings, investing in our insurance business to grow third-party clients, investing in technology and capabilities of our muni business and standing up an asset management business in China for which regulatory approval remains pending, while executing on AB CarVal opportunity and Bernstein Research's joint venture.

Now I'll turn it over to Kate to review financials. Kate?

Kate Burke - *AllianceBernstein Holding LP - COO & CFO*

Thanks, Seth. Let's start with the GAAP income statement on Slide 14. Fourth quarter GAAP net revenues of $1 billion decreased 22% from the prior year period. Operating income of $204 million decreased 48% and operating margin of 20% decreased by 1,080 basis points.

GAAP EPU of $0.59 in the quarter decreased by 54% year-over-year. For the full year, GAAP net revenues of $4.1 billion decreased 9%, operating income of $815 million declined 33% and operating margin of 21.5% decreased by 580 basis points. Full year GAAP EPU of $2.69 decreased by 31% 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 in our 10-K, the latter of which we expect to release on Friday, February 10. Our adjusted financial highlights are shown on Slide 15, which I'll touch on as we walk through the P&L shown on Slide 16.

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On Slide 16, beginning with revenues. Fourth quarter net revenues of $802 million decreased 22% versus the prior year period. For the full year, net revenues of $3.3 billion were down 8%. Fourth quarter base fees decreased 12% versus the prior year period and for the full year period were down 3%. In both cases, lower average AUM, driven by market declines were partially offset by higher fee rates. The fourth quarter fee rate of 41.3 basis points was up 5% year-over-year, driven by both higher fee rate AB CarVal base fees and by asset mix. The full year fee rate of 39.9 basis points rose by 3% year-over-year.

Fourth quarter performance fees of $18 million declined by $116 million from the robust prior year quarter, primarily driven by lower fees of financial services opportunities, AB Arya partners and real estate equity. Full year performance fees of $91 million were down $131 million from the prior year, driven by lower fees of financial services opportunities, U.S. Select Equity Long/Short, AB Arya partners and private credit services. Although difficult to predict, given market conditions, we expect full year 2023 performance fees to be roughly in line with 2022 levels.

Fourth quarter revenues for Bernstein Research Services of $100 million decreased 12% from the prior year period, driven by lower customer trading activity across all regions. Full year revenues of $416 million declined by 8%, reflecting lower trading activity in Europe and Asia due to local market conditions.

Moving on to adjusted expenses. All in, our total fourth quarter operating expenses of $570 million decreased by 9% year-over-year, while full year operating expenses of $2.4 billion were flat with the prior year. Fourth quarter total compensation and benefits expenses declined by 13% from the prior year period, reflecting lower AUM-driven revenues and lower performance fees, offset by a higher compensation ratio of 46.4% of adjusted net revenues as compared with 41.7% in the prior year period. Our fourth quarter compensation ratio of 46.4% came in lower than our expectations, reflecting a disciplined compensation process along with the fourth quarter market rally. For the full year, compensation and benefits decreased by 3%, driven by a 15% decline in incentive compensation, which offset a 6% increase in base compensation. The full year 2022 compensation ratio was 48.4%, 190 basis points above the prior year, reflecting lower revenues due to the market.

Entering 2023, lower equity and fixed income values are driving year-over-year revenue headwinds and a corresponding shift in our asset mix. As Seth mentioned, in this environment, we have taken proactive actions impacting headcount across our global businesses, which will impact approximately 4% of our global employee base. Combined with other ongoing saving efforts, these actions will help to offset some of these mix dynamics and importantly, position us to continue to invest in our key priorities.

As you know, we accrued compensation throughout the year and true up at year-end as revenues crystallize. Historically, our full year compensation to revenue ratio has ranged from 47% to 50%. Given market conditions, we believe we will be towards the higher end of this range in 2023. We plan to accrue at 49.5% compensation ratio in the first quarter of 2023 and may adjust throughout the year if market conditions change.

Promotion and servicing costs decreased by 11% from the prior year period and were up 10% for the full year as higher T&E and sales and client-related meetings rebounded from depressed levels in the prior year period due to the pandemic, offset by lower trade execution expenses and transfer fees. In 2023, we expect promotion and services spend to be up low single digits as the continued rebound in T&E is offset by lower spend elsewhere.

G&A expenses decreased 2% in the fourth quarter versus the prior year period, reflecting favorable foreign exchange, partially offset by higher professional fees and technology-related expenses. For the full year, G&A rose 6%, reflecting the addition of AB CarVal, higher technology and professional services spend on return-earning growth and efficiency projects, and inflation, particularly in data services. Given the backdrop of challenging markets, we are focused on strong expense discipline. In 2023, we are managing G&A growth to be below inflation levels, up low single digits.

Fourth quarter operating income of $232 million decreased by 41% versus the prior year period and full year 2022 operating income of $947 million decreased by 22% versus the prior year period. Fourth quarter operating margin of 28.9% was down 960 basis points year-on-year. Our full year 2022 operating margin of 28.4% decreased 520 basis points from record levels in 2021. For the full year, on a rolling 3-year basis, we delivered incremental margin of 35% below our long-term targeted 45% to 50% range.

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 $28 million or $0.11 per unit, above GAAP operating earnings due primarily to acquisition-related expenses. For the full year, adjusted operating income was $72 million or $0.25 per unit above GAAP also due to acquisition-related expenses.

The full year 2022 effective tax rate was 4.9%, slightly better than expected, reflecting a onetime tax credit. We expect an effective tax rate for 2023 of approximately 5.5% to 6%, more in line with our historical run rate.

As indicated earlier this year, we are providing annual updates on the savings associated with our Nashville relocation at year-end. For the full year 2022, expense savings of $43 million were greater than the transaction cost of $24 million, resulting in a $19 million contribution to operating income for a net increase of $0.07 per unit. Of the $19 million, approximately $38 million is compensation-related savings offset by $19 million of increased occupancy costs. We expect the Nashville relocation to remain accretive, growing to the range of $75 million to $80 million per year beginning in 2025, once the transition period is over.

In sum, despite the market rally in January, we are prepared for 2023 to be another volatile and challenging year. We are very focused on maximizing the opportunity set with AB CarVal and completing the joint venture with SocGen and we'll continue to make investments in key areas, such as China, ETFs and insurance.

Taking a step back, AB has a history of disciplined and balanced management of strategic priorities, balancing opportunities and trade-offs. Looking forward, we have tremendous confidence in the positioning of our firm. We made meaningful progress in 2022 across a number of our strategic initiatives, positioning us well to take advantage of green shoots as the environment develops. Our employees continue to exhibit a strong sense of ownership, discipline and overall engagement and are well aligned with our priorities as we seek to drive the best outcome for our clients.

Now we'll be happy to take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Alex Blostein with Goldman Sachs.

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

Seth, as usual, maybe we'll get started with a question for you on fixed income. Very encouraging to get your comments on stronger flows in retail in the first quarter so far. Again, it sounds like it's partially coming from the retail channel. Can you unpack that a little bit, some of the regions where you're seeing the strength? And as you look out for the rest of the year, curious just to get your thoughts on sort of the differences between institutional demand for active fixed income versus retail as despite the fact that the performance numbers that you guys added are challenging, it doesn't really seem to matter for retail flows given they are back in a pretty healthy way, but I wonder to what extent that might impact the institutional business?

Seth Bernstein - *AllianceBernstein Holding LP - CEO, President & Director*

Alex, thank you very much. Let me give you some -- a bit of color on that point. We have been positive in taxable fixed income in January, principally from Asia, but we're seeing interest in Muni SMA here in the U.S. And so that seems to be on a better track. That of course, presumes that the Fed is closer to the end than to the beginning and -- but what I do think is clear is that people think it's a more interesting entry point at current yields than obviously they've done in the last several years, which is a change for us. The flows aren't as robust as they had been in the prior cycle yet, but who knows how they will evolve.

With regard to investment performance, our clients, particularly in Asia, understand we're more globally oriented than a number of the other competitors. That's not to say we didn't underperform, we have, but they have to live with us and understand the trials and tribulations as we go through a cycle and are confident in our ability to recover.

I would further say to you that if you dig into a number of our institutional strategies, we do have quite competitive performance, whether it's in emerging markets or U.S. high yield. And so we have seen some interest there. But let me hand it over to Onur to give you some more color.

Onur Erzan - *AllianceBernstein Holding LP - Head of Global Client Group & Head of Bernstein Private Wealth*

Alex. Yes, Seth summarized it well. The 2 things I would add are, on the institutional side, if you look at the pipeline in the fourth quarter, almost half of the additions came in from fixed income. So we saw that strength. And then in January, again, 1 month doesn't make a trend, but we have seen a couple of good wins in the international markets. And we are seeing a nice pre-pipeline development with emerging market debt, high yield, as well as on the insurance investment grades, which are critical priority areas for us.

And on the retail side, the only other color I would add beyond the cyclical stuff is, as you know, the expansion of our Muni platform with the custom solutions is a priority. And in the fourth quarter, we launched our custom Muni solution set and that's got onboarded to several very large top 10 U.S. intermediaries. So we're going to get some benefit of that expansion and I expect us to gain market share. Hard to predict overall market volumes, but on a market share basis, I feel relatively confident.

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

My second question is for Kate. Great to hear sort of non-comp expenses in the low single digit for G&A and promotional kind of in the upper single digit range as well. So pretty well maintained there. I guess, as you think about the environment, and I appreciate you guys are being cautious around kind of baking in robust market recovery despite obviously a good start of the year, but as we think about areas where some of these expenses could drift higher, if markets remain more constructive, where would it be? What would that look like? Or you see kind of a pretty good line of sight on sticking within these kind of guidance ranges, even if markets are a little bit stronger? And maybe just a clarification on G&A. You're talking -- I'm assuming you're talking for the adjusted G&A number low single digit growth, not the GAAP number?

Kate Burke - *AllianceBernstein Holding LP - COO & CFO*

Yes, thanks for the question. You're correct that I was doing it off the [adjusted number] (corrected by the company after the call) for G&A. Look, we, in our forecast, we tend to be, I think conservative in terms of looking at what the market trends would be. Where I would anticipate you could see some increase if we have stronger markets this year, is that you may see some increase on the T&E side, where we would be looking to continue to support our robust sales efforts. That in and of itself is where we are going to see some higher expenses, but they are more than offset in other areas. Otherwise from a G&A perspective, I think we feel pretty good that we used to be in sort of the up to low single digits area and we don't anticipate that that should be climbing higher even in a higher market environment.

Operator

Your next question comes from the line of Bill Katz with Credit Suisse.

Bill Katz - *Crédit Suisse AG, Research Division - MD*

Maybe just picking up on the expense discussion for a moment. So appreciate the moves, reduced the headcount. Sort of a treat to hear you say you still get it sort of an incremental $75 million to $80 million of annual run rate savings in 2025 as you sort of consolidate the headcount -- headquarters, excuse me. Is that mean you're bringing forward the timeline on that or is there still an incremental $75 million to $80 million beyond sort of the adjustments you're making pro forma into 2023?

Kate Burke - *AllianceBernstein Holding LP - COO & CFO*

No. For 2023, there is -- Nashville is not impacting our 2023 forecast. The $75 million to $80 million you're talking about is really the final realization of the completion of the Nashville move, when we exit our New York real estate holdings. And where we -- so we won't have that double counting of real estate expense. The Nashville move was accretive this year by about $0.07. We expect that continued accretion going forward. We will provide those updates annually as we did this year and that's -- so that part of the program continues unabated. Separately was the headcount reduction actions that we took place -- that took place earlier this month. I mean, that was really a result of us examining the environment that we're entering into here in 2023 and making sure that we're positioned competitively, not only to take out costs where we saw opportunities to do so, but also free up some opportunities to continue to invest in areas that we find strategically attractive. And so, our hope is that as the year continues, that we will be able to increase that strategic investment, based on market results but the headcount reduction is independent of what we're doing related to Nashville.

Bill Katz - *Crédit Suisse AG, Research Division - MD*

And Seth, may one for you. So you have a lot of good things going on in terms of flows. Maybe step back a little bit and truly give us a sense of, as you look at your -- the private markets business and maybe alternatives at large, what are the top 2 or 3 areas you sort of see the best opportunity in 2023?

Seth Bernstein - *AllianceBernstein Holding LP - CEO, President & Director*

Well, again, let me start, Bill, and then I'm going to hand it over to Onur. Look, while there are some headwinds in the private market, we're still very excited about what we're doing with CarVal. CarVal, they have a number of new strategies and newer vintage strategies that are up and launching for fundraise this year, which we're seeing pretty good receptivity toward. Additionally, we continue to see opportunities for newly raised funds in our U.S. cred business in a less competitive marketplace. And we are seeing better structure terms in our middle market lending business. But Onur, why don't you give some additional color?

Onur Erzan - *AllianceBernstein Holding LP - Head of Global Client Group & Head of Bernstein Private Wealth*

Yes. No, thanks Seth. The things I would highlight are, one, we are very encouraged by the momentum with the Clean Energy Fund II at CarVal, which we're going to close this year. The second vintage will bring much more assets than the first vintage, and that is our nice foray into the broader retail market as well. So that's one additional area I would highlight. As Seth mentioned, on U.S. real estate debt, we have been quite successful with the deployments in the second half of the year, despite all the challenging market environment. That's because we are sitting on pretty healthy level of dry powder. I mean given the market conditions, I think we have an advantaged dry powder position to be able to deploy at the attractive terms. So we like that space. And the demand for income driven credit strategies remained very strong in our private wealth channel. The realizations in terms of the income generation in 2022 has been very attractive for our clients despite all the challenges in the marketplace. So that should continue to have evergreen demand from our own proprietary private wealth channel. So those are a few things I would highlight.

Bill Katz - *Crédit Suisse AG, Research Division - MD*

Okay. And just, I apologize my line got dropped. Seth, when you were answering Alex's first question, did you specify the dollar amount of flows in January? I apologize.

Seth Bernstein - *AllianceBernstein Holding LP - CEO, President & Director*

No, we didn't. But we're releasing tonight.

Operator

Your next question comes from the line of Craig Siegenthaler with Bank of America.

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

So I wanted to get another update for you on the potential rebalancing this year, and I wanted to see first, if you have any perspective, if you think fixed income is going to be the big winner? And secondly, we saw passive really dominate the fixed income landscape last year. Do you think that continues if and when there is large rebalancing in the fixed income?

Seth Bernstein - *AllianceBernstein Holding LP - CEO, President & Director*

Look, I think that this is a particularly difficult year to forecast, just given all the uncertainties embedded in it. So take it with a boulder of salt. I think that there is a lot of pent up demand for income. And so I think you'll continue to see appetite. But inflation expectations really matter, Craig, you know that. And to the extent that we see shockingly strong jobs data again, that could throw that off, and so I'm hesitant to have enormous confidence in it. But I think that there is really strong demand for -- we see it in tax exempt. We see it in taxable and we really see it offshore. So I think there's a big demand for it.

With regard to the question on passive, look, I think we have to assume that passive will continue to gain share in liquid markets. Fixed income isn't excluded from it, which is why we've been automating, which is why we've been lowering our cost of execution. But we have to, like everyone else, have a value proposition where we beat net of fees in order to earn our place in a sophisticated clients portfolio. We think we have that opportunity. We think our clients understand our investment profile, which is to be generally long carry in our credit funds. And so we do underperform in those markets. But ultimately, we're very comfortable with the way we structure our portfolios. We try to avoid idiosyncratic exposures in credit. And I think overall, and over long periods of time, we performed very well. But I don't think the secular trend has changed. The pace of that may slow. But I don't think that trend changes.

Onur Erzan - *AllianceBernstein Holding LP - Head of Global Client Group & Head of Bernstein Private Wealth*

And one other comment is, obviously, some of it is the ETF trend. So there is a little bit of a vehicle overlay to the story. With the launch of our active ETFs, we are very encouraged by the early momentum we have. Obviously, we only have 2 fixed income ETFs. But we are encouraged that we were able to raise few hundred million dollars in a very short amount of time and we believe we can participate in the ETF adoption in the fixed income space, and we actually believe some of them will be active, not only passive. So hence, we believe we are well covered given the structural trend.

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

Great. And then just as my follow-up. We do have these large fixed income reallocations and a lot of it does go to passive, but there is an active sleeve. How do you think your bond business is positioned for that? I know the 1 year numbers aren't great. The 5 year numbers are better. But also, your taxable bond business hasn't really seen good organic growth for a while. It's actually your active equity business that has seen good organic growth over the last few years. But how do you think AB is positioned for that?

Seth Bernstein - *AllianceBernstein Holding LP - CEO, President & Director*

Look, I think that AB is building a much stronger domestic U.S. retail presence, where we've always been underweight, understrength relative to a number of our key competitors. And so we've been always quite dependent on Asian flows. And we have seen very limited demand, in fact, selling over 30 odd month period. So I think we're better positioned than we were historically. We've had periods of underperformance before where we -- where that has not been a big issue for us outside the U.S. and with respect to within the U.S., which may be more rating sensitive, while, I suspect that would have a bigger impact in the U.S. I think our play is really in the tax exempt space, where we absolutely have high conviction that our distribution partners are moving aggressively into the SMA space and we have a differentiated product to capitalize upon that, and I think the fact that we buck trends to do that helps.

I think our U.S. high yield capability is a competitive strength, and there will be disruption in that marketplace. So I do think there are other elements of opportunity for us, but it's a pretty mature market, as you know. So I'd say given the stronger retail distribution footprint we're building and the success we've had early days, I'm optimistic, but we have to prove that.

Operator

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

Dan Fannon - *Jefferies LLC, Research Division - Senior Equity Research Analyst*

My question is on just broadly retail gross sales, obviously, down versus a pre -- record 2021. But if you look back, it was also below 2022 and 2019 levels. So trying to think, just in terms of kind of assets in motion kind of momentum in sales, how you're thinking about normalization, if this -- if last year seemed abnormally low or if the other periods were just more outsized, then how to think about it going forward?

Onur Erzan - *AllianceBernstein Holding LP - Head of Global Client Group & Head of Bernstein Private Wealth*

Thanks for the question. Onur, again. You're absolutely right. 2021 was probably an outlier year. I think we should look at it more by region. From our perspective, we believe we will continue to experience growth in sales in U.S. retail, given our investments and focus in that space, both on the sales side as well as on the expansion of products. We definitely are seeing a comeback as Seth mentioned on Asia, taxable fixed income, particularly American income portfolio, which has been a longstanding flagship product for us, is coming back. Part of it is rates. Part of it is the opening of Asia and Hong Kong, that definitely is an area -- region we are bullish about. Latin America, we are encouraged with some of the renewed appetite when it comes to fixed income as well. It has been historically a big retail fixed income buyer for us, using the usage platform and we have been successful with some fixed maturity products lately. EMEA had a huge hit in 2022, obviously, given the Russia, Ukraine and proximity to the energy crisis and everything else. And we had a pretty material contraction there. So from a low base, I see an upside.

I think Japan is one reason we definitely will see some slowdown and that will be more driven by the movements in the Japanese Yen, which will make the U.S. denominated assets less attractive. So overall, I think probably I have more longs and shorts in terms of regions and we expect a healthy level of sales. And remember, we always focus on net flows and we're not going to hopefully have the same level of redemption that was also partially triggered by the tax loss harvesting, which was quite unique for 2022.

Dan Fannon - *Jefferies LLC, Research Division - Senior Equity Research Analyst*

And then just a quick question on Private Wealth. Advisor productivity was down year over year, I assume that was more environmental in terms of the backdrop. But you've put in a lot of initiatives in place to kind of increase productivity over the last couple of years. Can you maybe talk about what did occur in last year and how you're thinking about that in the wealth opportunity kind of as we think about '23 and beyond?

Onur Erzan - *AllianceBernstein Holding LP - Head of Global Client Group & Head of Bernstein Private Wealth*

No. Thanks for the question. 2022 was only a small decline in productivity, again from a very high peak 2021. If you look at the last kind of 5 years, 2022 will stand out as a very strong productivity in terms of our average FA revenue production. The channel also delivered on an annual basis organic growth. That was the second consecutive year we achieved that. So we feel good about the momentum. Overall, in terms of the initiatives, we are trying to pivot more into ultra high net worth. And if you look at our organic growth rate with ultra high net worth versus other segments is 3x. So we are seeing a good trend line there, in line with our strategy. And as you know, we have been an early adopter of alternatives in our

Private Wealth channel, where the penetration of alternatives is typically ahead of our competition, given our history track record and the proprietary plus model and that continues with 5 or 6 products in the pipeline to be launched in our channel, both our private credits solutions that our proprietary, as well as the next vintages of third party products.

So all in all, I think it's healthy. The area obviously, we will work on is tuning back the financial advisor hiring which we consciously slowed down given the economic outlook. Obviously, the new financial advisors are not as productive as the older ones. So once we accelerate that and we have a February class coming in, you might see some change in the productivity just because the new advisors might come at lower production. But it's a high quality problem that we will discuss at the coming quarters.

Seth Bernstein - *AllianceBernstein Holding LP - CEO, President & Director*

But 1 month, we did have positive flows, net flows in Private Wealth in January.

Onur Erzan - *AllianceBernstein Holding LP - Head of Global Client Group & Head of Bernstein Private Wealth*

Correct.

Operator

Your next question will come from the line of John Dunn with Evercore.

John Dunn - *Evercore ISI Institutional Equities, Research Division - Analyst*

You guys talked about in terms of the $10 billion from Equitable being well past the halfway mark. Any early thoughts on maybe the next phase of that relationship? And could we see kind of the next round bigger order of magnitude and maybe an acceleration of timing?

Seth Bernstein - *AllianceBernstein Holding LP - CEO, President & Director*

Yes, let me start in that. Equitable continues to be critical to us in our strategic planning on how we attack the insurance industry generally, and how we build our Private Alternatives capability in particular. And we are really focused on expanding our third party, third party insurance reach beyond Equitable, important though, they will continue to be critical, they will continue to be for us. And they are quite supportive of that endeavor. Our ability to expand further in private alts in Equitable general account is directly related to the change in size of their GA over time. And so, as it grows, if it grows, we benefit from that. Conversely, to the extent that contracts, there will be less capacity to expand.

That being said, they continue to look at opportunities as do we and so it will be more, I guess, opportunistic is probably a fair way to describe that in terms of growth. But there's continuing commitment to invest with us where they need incremental yield on their general account portfolio. I don't know, Onur, if you have anything to add to that.

Onur Erzan - *AllianceBernstein Holding LP - Head of Global Client Group & Head of Bernstein Private Wealth*

No. I mean, I think, the only other thing is, still there is another several billion dollars, the other 50% to be deployed. Obviously, that will bring incremental revenue and we need to let them digest that. And that will open the way for brainstorming new ideas, that's already underway.

John Dunn - *Evercore ISI Institutional Equities, Research Division - Analyst*

Makes sense. And then, can you just remind us of kind of the capital impact of consolidating Bernstein?

Seth Bernstein - *AllianceBernstein Holding LP - CEO, President & Director*

I'm sorry, can you just clarify? You mean Bernstein Research to the -- joint venture?

John Dunn - *Evercore ISI Institutional Equities, Research Division - Analyst*

Yes.

Kate Burke - *AllianceBernstein Holding LP - COO & CFO*

It's Kate here. We're still in early stages of the work around what the ultimate integration would look like. And so we'll give further guidance on that as we get closer to the closing of the transaction.

Operator

There are no further questions at this time. Mr. Griffin, I turn the call back over to you.

Mark Griffin - *AllianceBernstein Holding LP - Head of IR*

Okay, terrific. Thank you, Regina. Thanks, everyone, for participating in our conference call today. As always, feel free to reach back out to Investor Relations with any additional questions and have a great day.