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AB.N - Q1 2021 AllianceBernstein Holding LP Earnings Call

EVENT DATE/TIME: APRIL 29, 2021 / 12:00PM GMT

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PRESENTATION

Operator

Thank you for standing by, and welcome to the AllianceBernstein First Quarter 2021 Earnings Review. (Operator Instructions) As a reminder, this conference is being recorded and will be available for replay for 1 week.

I would now like to turn the conference over to the host for this call, Head of Investor Relations for AB, Mr. Mark Griffin. Please go ahead.

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

Thank you, operator. Good morning, everyone, and welcome to our first quarter 2021 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 Ali Dibadj, CFO. Additionally, Matt Bass, Head of Private Alternatives, will join us to discuss our Private Alternatives business; and Kate Burke, COO, 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 first quarter 10-Q, which we filed earlier this morning. Under Regulation FD, management may only address questions of material nature from the investment community in a public forum, so please ask questions during this call.

Now I'll turn it over to Seth.

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

Good morning, and thank you for joining us today. In the first quarter, we drove balanced growth across all 3 channels. Geographic diversification and differentiated client-focused offerings, specifically across ESG, active equities, alternatives and municipals led the way. Near-term investment performance rebounded strongly in fixed income, with sound long-term performance across other asset classes and our institutional pipeline grew to a record annualized fee base led by alternatives.

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For the quarter, we posted active organic growth of 4% while expanding our operating margin to 31.7%. We delivered 27% growth in both earnings and distributions to unitholders.

Let's get into the specifics, starting with a firm-wide overview on Slide 4. Gross sales were $33.3 billion, our second-highest quarter since pre-financial crisis 14 years ago. Sales were up $1.7 billion or 5% from a year ago and up 6% from the prior quarter. Firm-wide active net inflows were $6.5 billion, a 4% annualized organic growth rate. Quarter end assets under management of $697 billion were the highest since pre-financial crisis, increasing 29% year-over-year and 2% from the prior quarter. And average AUM of $689 billion increased 14% year-over-year and 6% sequentially.

Slide 5 shows our quarterly flow trend by channel. First quarter net inflows were positive in each channel. Retail generated it's second strongest gross sales ever with net inflows of $2.7 billion as strength in active equities and munis more than offset outflows in taxable fixed income, showing the balance we've built in our retail business.

Institutional sales of $4.9 billion led to net inflows of $800 million driven by growth in taxable fixed income. In Private Wealth, gross sales increased 54% year-over-year and were up 46% sequentially with continued adviser productivity gains. Net inflows of $1.7 billion reflected improved investment performance and heightened client risk appetite.

Now let's turn to investment performance beginning on Slide 6. In the first quarter, yields rose meaningfully in nearly all developed fixed income markets, reflecting reflationary concerns to amidst expectations for a strong global economic rebound. With exception of high-yield, bond returns were negative and credit sectors outperformed governments. Despite the first quarter's yield-driven price declines, global credit sectors have rebounded strongly over the past 12 months following the COVID-19-driven sell-off in March of last year.

Our strategies with global and multi-sector credit positioning, including global high yield and American income have benefited during this risk-on period. Furthermore, each of the 5 income strategies on our retail income platform, U.S. retail income platform, ranked in the top quartile of their respective Morningstar categories over the 1-year period.

For the 1-year period ended in March, 91% of our fixed income assets outperformed, a strong rebound versus prior periods. 55% of our assets have outperformed over the 3-year period and 65% over the 5-year period. Our municipal lineup continued to outperform, with 9 out of 10 funds in the top quartile across each time period. We saw strong inflows this quarter as income was in demand. For example, our municipal bond inflation fund, which we believe is the only fund in the industry to combine muni bonds and 100% hedge to inflation through tax-efficient CPI swaps, saw solid inflows benefiting from reflationary concerns which were otherwise a negative for yield products.

In equities, our long-term performance remains solid as 57% of assets outperformed over the 3-year period and 67% outperformed over the 5-year period. Our 1-year equity performance of 38% of assets outperforming, reflecting our lower weightings relative to heavy benchmark concentration of mega cap stocks with abnormally high exposures to risk factors like data and momentum. It's worth noting that year-to-date,, a portfolio of these 5 stocks held in proportion to the market, their market weights would have underperformed the S&P 500 by nearly 800 basis points.

We positioned our portfolios to participate in greater market breadth as the economy started to reopen. In the first quarter, 62% of our equity composites outperformed their benchmarks led by our value and core strategies, growth strategies have held their ground. Our sustainable U.S. Thematic Equities Fund won Citywire's U.S. Offshore Award, beating over 2,000 funds available to U.S. offshore investors for providing the most value-add over a 3-year period. Additionally, our concentrated growth and large-cap growth funds were both upgraded to Bronze medalist ranked funds by Morningstar, a designation received by only 5% of funds with assets over $100 million.

Moving on to our client channels, beginning with Retail on Slide 7. Gross sales were the second strongest on record, 5% below a record first quarter 2020 and up 30% sequentially. Net inflows were $2.7 billion, driven by a 17% annualized organic growth in active equities, our 16th straight quarter of active equity inflows. U.S. retail SMA sales accelerated, and we had a strong quarter in Japan. Municipals grew by 18% annualized, helping to offset higher taxable fixed income redemptions in our high-income suite.

As shown on the upper-left chart, a balanced and diverse product offering has led to consistent organic growth, with retail channel generating positive net inflows, 9 in the last 11 quarters. Geographic balance continues with the U.S., 36% of sales; Japan, EMEA and Latin America, 34% of

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sales; and Asia ex Japan, 30%. We now have 61 products of more than $1 billion each balanced across asset classes. Our equity funds rank 12 of 454 managers with several of our largest funds posting strong flow rankings as shown on the bottom right. Munis ranked 14th out of 110 managers.

Now I'll discuss Institutional on Slide 8. First quarter gross sales of $4.9 billion were up 26% year-over-year driven by diverse fixed income sales and were down 51% sequentially. Fixed income sales were robust, up 300%, driven by credit, U.S. investment-grade corporates, securitized debt, CLO and emerging market debt. Active equity sales of $900 million saw strong growth in ESG, and our active equities unfunded pipeline were reporting the third strongest AFP since we began tracking this back in 2011.

Speaking of ESG, yesterday, we announced a groundbreaking commitment as founding member of the Corporate Affiliate Program at the newly launched Columbia Climate School. This is the second phase of our relationship that began in 2019, facilitating ongoing interaction between AB's investors and Columbia University scientists and experts on climate issues as they arise in the investment process across portfolios, sectors, asset classes and regions. Our Institutional pipeline grew to $15.2 billion at quarter end, up 25% sequentially driven by growth in alternatives. The AFB of well over $50 million is a record and represents a 20% compound annual growth since we began tracking in 2011.

As shown in the bottom right, notable pipeline additions include $1.5 billion of lower fee CRS, $1.1 billion in our fourth U.S. commercial real estate debt fund supported by Equitable, EUR 1 billion in euro cred, also supported by Equitable, and $750 million in U.S. investment-grade corporates.

Moving to Private Wealth Management on Slide 9. Gross sales of $5.4 billion increased by 54% year-over-year and 46% sequentially, with strong continued improvements in adviser productivity. Combined with lower redemptions, we generated net inflows of $1.7 billion, reflecting improved investment performance and heightened client risk appetite. Increasingly, clients actively deployed cash into long-term allocations, and we also saw a notable increase in pre-IPO planning versus the prior year, which bodes well for future fundings. We raised $106 million in private credit and $75 million in the first close of our private equity fund of funds.

As shown on the bottom right, we continue to experience strong growth in muni impact, ESG and our proprietary separately managed equity tax loss harvesting product. We're planning for a significant acceleration in new product launches in 2021 across a diverse array of funds, including alternative ESG and SMA platforms.

I'll finish our business overview with the sell-side on Slide 10. Bernstein Research revenues increased 1% sequentially and were down 8% versus last year's extraordinarily volatile first quarter. Growth in Asia continues to be strong, with trading commissions up 50%, compounding similar prior year gains. India continues to show outsized growth stemming from focused investments.

Strong increases in U.S. market trading volumes shown on the bottom-left graph were driven by higher mix of retail investors. As you know, our business remains institutionally focused. That said, we saw generally healthy trading volumes across our desks despite volatility declining from prior periods. We experienced good momentum for our sell-side offerings with research checks up 15% in the quarter.

Progress toward our strategy in the first quarter is shown on Slide 11. 57% of our equity assets and 55% of our fixed income assets are outperforming over 3 years and 67% of equities and 65% of fixed income are outperforming over 5 years. Near-term performance in fixed income improved to 91% of assets outperforming. Our geographic and product balance drove consistent organic growth across all channels, with Retail positive 9 of the last 11 quarters and Institutional positive 7 out of the last 8 quarters.

Our Institutional pipeline now has a record fee base well over 50 million, with alternatives accounting for over half of the total. We closed on $900 million in our fourth U.S. commercial real estate debt fund and closed on $400 million in our second CLO. Private Wealth had strong sales and net inflows, and we're executing on a diverse product pipeline for 2021.

Differentiated product continues to amplify growth, including our ESG's Portfolios with Purpose, now $21 billion in AUM, up 27% sequentially. We are committed to managing our business to deliver strong incremental operating margins. Our first quarter adjusted operating margin of 31.7% was up 410 basis points year-over-year, with earnings and to unitholder distributions up 27% versus the prior year period. From time to time going forward, I'll be inviting key members of our operating committee to participate in our earnings calls to highlight established and emerging areas of our business.

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Today, I'm delighted to introduce Matt Bass, who runs our growing Private Alternatives platform. Matt will share some comments, followed by Ali Dibadj, who will wrap up with our financials. Matt?

Matthew Bass

Thanks, Seth, and good morning, everyone. I'm going to discuss our Private Alternatives business at AB, it's history, the current platform, our growth strategy and why we believe AB is well positioned to continue to attract great investment talent and meet our clients' needs.

Before we dive in, I want to provide some context behind the growth of alternatives at AB more broadly. Post financial crisis, we've invested significantly in diversifying the firm, growing our fixed income franchise, growing and diversifying our equity franchise and building out our multi-asset and alternative capabilities. We accomplished this through a combination of organic growth and product development as well as targeted inorganic growth, acquisitions, team lift-outs and team build-outs.

As you can see on Slide 13, since 2010, we've added 10 diversifying alternative investment capabilities to the firm across both private and public markets. Turning to Slide 14. In Private Alternatives, our focus has been on credit-oriented strategies, core competency that aligns with the firm's long-tenured liquid credit business, which, as you know, is a key component of our DNA.

I'm showing this to you as many who cover our alternative peers can appreciate on an apples-to-apples basis, AB has built a $125 billion credit business of which private alternatives represents approximately $20 billion. This sits alongside our private placement business, which manages nearly $12 billion in AUM, and our CLO business, which was launched in 2020 with backing from Equitable. And it's a direct extension of fully integrated with AB's leveraged finance platform. Collectively, these strategies represent more than 25% of our total credit AUM.

On Slide 15, I'll review our current platform before we get into the growth strategy. Today, AB's Private Alternatives business has scaled capabilities across private credit and real estate, including U.S. direct lending, a business we call AB Private Credit Investors, U.S. commercial real estate debt, European commercial real estate debt as well as energy. The business currently has committed capital of $20 billion. Let's talk a bit about some of these businesses.

Our direct lending business, AB Private Credit Investors was started in 2014 via a team lift out from Barclays, where we hired a core team of 5 with an established track record and initial backing from Equitable. Over the past 7 years, we've grown from 5 to more than 60 professionals focusing on the U.S. middle market. Since inception, the business has deployed approximately $13 billion, investing in over 200 middle-market companies with approximately $11 billion in committed capital. We managed both pooled vehicles and separate accounts targeted at multiple client segments.

Our commercial real estate debt business includes U.S. and European lending businesses. Our U.S. business was started in 2012 via a team build out. Since its launch, we've deployed nearly $6 billion, financing more than 100 properties across property types. The business currently has $6.7 billion in committed capital, and we manage both pooled vehicles and separate accounts on behalf of a global institutional investor base, and we are currently in the market with our fourth transitional lending fund having announced initial closing earlier this year.

We entered the European commercial real estate debt market late last year. Again, this follows the same strategy we have deployed in the past, targeting a specific investment opportunity, meeting with various teams and aligning on the right fit. Based in London, the team currently oversees 2 mandates focused on transitional and opportunistic lending across Europe and the U.K. As with our direct lending business, this launch is backed by Equitable, with $1 billion commitment, representing another example of the important strategic relationship we share with Equitable.

Lastly, our energy offering was launched in 2016, includes 2 vintages with $600 million in committed capital. And additionally, we have other alternative strategies that we're growing. Broadly speaking across the Private Alternatives platform, performance targets vary depending upon strategy and vehicle type. We have generated investment performance that's in line with our client commitments.

Turning to Slide 16, let's talk about our growth strategy. Looking forward, the growth backdrop for the private business is very promising. Private market strategies are growing at 2x to 4x the rate of traditional public market strategies with a favorable supply and demand backdrop. On the

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supply side, there's a continued share shift from bank and capital markets financing to private financings, owing to speed, flexibility, scale that private capital offers, among other advantages.

On the demand side, clients are increasingly allocating the private markets in search of income, diversification and to take advantage of illiquidity premiums. With this as a backdrop, our vision for private alternatives at AB is to create an industry-leading platform in terms of breadth of credit-oriented private market solutions and our client engagement. Our growth strategy features both organic and inorganic growth, both supported by the firm's access to strategic capital sources, notably permanent capital through our relationship with Equitable, our Private Wealth business as well as our global, institutional and retail footprint.

Organic growth has historically been driven by scaling our existing platforms within their core strategies as well as extending into adjacent strategies. This is expected to continue going forward across all of our existing businesses. Think of this as both growing the tree trunk and adding branches to the trade, growing the trunk by scaling existing funds and launching new funds, targeting new client segments, adding branches by leveraging our existing teams or investment capabilities to extend into adjacent asset classes or strategies.

Let me give you a few examples. On the real estate side, our U.S. business has historically focused on lending against transitional assets. We are extending this into stabilized lending, leveraging our origination network and credit process. We're also launching a higher-yielding income-oriented strategy, leveraging the same team and process, simultaneously allowing us to extend the high net worth investor market.

On the private credit side, our direct lending business has a strong presence in growth industries such as technology-enabled services and IT infrastructure. And we've leveraged this industry expertise as well as company and financial sponsor relationships to build a growth-based capital business, which provides debt and equity capital to growth companies.

In addition to organic growth, we have platform gaps that we will continue to fill through targeted acquisitions and team lift-outs. We're not going to be everything to everyone. Our growth will be focused towards large growing end markets where we have an edge.

Geographically, our platform is currently weighted towards the U.S. from an investment perspective. Expansion of our real estate credit business into Europe was the first step of geographic expansion in both Europe and Asia represent opportunities that we are considering across investment segments.

We also have platform gaps including private asset-backed as a complement to our existing direct lending business, infrastructure and renewables as well as special situations. These large, scalable end markets are also aligned with our clients' needs, notably Equitable's strategy to improve yield in its general account by reallocating assets to higher-quality liquid opportunities. This has led to a virtuous cycle with the ability to deliver additional yield to our partners' balance sheet and, at the same time, seed new strategies with permanent capital, enabling AB to continue to expand our business.

Equitable's permanent capital has provided the necessary scale to broaden the commercialization of our strategies to AB's global institutional and retail distribution channels, including our private wealth management channel, AB Bernstein, where collectively, across these channels, we've been successful in raising third-party capital equal to 4x the amount of the initial founders seed.

On Slide 17, we answered a question, why AB? Since 2010, AB has completed 14 team lift-outs and acquisitions, of which 10 have been within alternatives, as I previously mentioned. One of the questions we often get is why AB, how do you attract teams in a competitive market? This slide is an excerpt from a presentation that we use to proactively face the market to source opportunities and engage with teams.

The market for talent is competitive, and the teams and companies we are engaging with have multiple options. I think we differentiate ourselves in terms of AB's commitment in building this business as well as the strategic capital sources that I just discussed.

One key factor in our model is the desire to maintain a particular team's investment process and autonomy. We want to facilitate consistency in the team's approach so that they are best positioned to continue to deliver attractive returns for our clients. We get comfortable with providing this autonomy through our detailed upfront diligence on both the market segment and the target investment team. However, we're also strategic

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about thoughtfully connecting these teams to the broader firm, including technology, operations and distribution. Through this, we believe we're able to offer our clients the focus that comes from a dedicated investment team combined with the institutional resources of a global firm.

Lastly, another important value proposition is how we engage with our teams throughout the process from initial contact through acquisition and commercialization, where we have a dedicated business development team that works in partnership with the acquired team and the broader firm to drive growth.

With that, I'll now turn the call over to Ali.

Ali Dibadj - *AllianceBernstein Holding L.P. - CFO & Head of Strategy*

Thanks, Matt. A great look into a key part of our business and strategy. Let's start with the GAAP income statement on Slide 19. First quarter GAAP net revenues of $1 billion increased 15% from the prior year period; operating income of $260 million increased 46%; and an operating margin of 25.9% increased by 260 basis points. GAAP EPU of $0.81 in the quarter increased by 29% year-over-year.

As always, I'll focus my remarks from here on our adjusted results, which remove the effect of certain items that are not considered part of our core operating business. We base our distribution to unitholders on our adjusted results, which we provide in addition to and not as a substitute for our GAAP results. Our standard GAAP reporting and reconciliation of GAAP to adjusted results are in our presentation appendix, press release and 10-Q.

Our adjusted financial highlights are shown on Slide 20, which I'll touch on as we walk through the P&L shown on Slide 21.

On Slide 21, beginning with revenues. Net revenues increased 10% for the first quarter versus the same prior year period. Base fees increased 11% for the first quarter versus the prior year period, reflecting 14% higher average AUM, which grew across all 3 distribution channels, partially offset by a slightly lower fee rate. The first quarter fee rate of 38.6 basis points was essentially flat sequentially. We continue to believe that although our fee rate may be volatile from time to time given large mandates in our pipeline that may skew averages, the long-term trend should be grinding higher.

First quarter performance fees of $16 million increased by $10 million versus the prior year period due primarily to higher fees earned on our private middle-market lending business. First quarter revenues for Bernstein Research Services decreased by 8% from the first quarter of 2020, reflecting higher client trading activity a year ago, driven by outsized market volatility amidst the onset of the COVID-19 pandemic. We incurred investment gains of $2 million in the first quarter, primarily seed capital related as compared to losses of $7 million in the prior year period.

Moving to adjusted expenses. All in, our total first quarter operating expenses of $560 million increased 4% year-over-year. Total compensation and benefits expense increased 10% in the first quarter due to higher incentive compensation driven by higher revenues. As expected, compensation was 48.5% of adjusted net revenues for the first quarter, flat with the prior year period. Given current market conditions, we plan to accrue compensation at a 48.5% ratio in the second quarter of 2021 with the option to adjust accordingly throughout the year if market conditions change. As we stated last quarter, expectations for our full year comp ratio should consider that performance fees have become a bigger piece of our mix which may drive the comp ratio up. Moreover, as we previously mentioned, fringe benefits may ramp up this year post COVID.

Promotion and servicing costs declined 21% in the first quarter due to lower T&E and lower meeting costs owing to the COVID-19 pandemic. Looking forward, we expect promotion and servicing spend levels should begin to return closer to more normalized levels in the second half of 2021 as travel and meetings resume though the pace at which these pickup remains uncertain.

G&A expenses increased by 2% in the first quarter versus the same prior year period. For the first quarter, higher occupancy costs related to the Nashville relocation, ancillary taxes, portfolio servicing and unfavorable foreign exchange translation were partially offset by lower errors.

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Interest expense declined by $1.5 million, and tangible expenses declined by $5 million from a year ago, the latter reflecting the absence of the quarterly amortization charge associated with the Bernstein acquisition, which ended in the third quarter of 2020. First quarter operating income of $260 million increased 26% versus the prior year period as revenue growth outpaced expense increases.

First quarter operating margin of 31.7% was up 410 basis points year-on-year, reflecting the operating leverage of our business. The incremental first quarter margin was over 70% as compared to the prior year period. We continue to manage the business to incremental margin of 45% to 50%, not necessarily every year but, on average, over time.

The first quarter effective tax rate for AllianceBernstein LP was 6.4%, reflecting discrete items. We continue to expect an effective tax rate for 2021 of approximately 5.5% to 6%.

I'll finish with an update on our planned corporate headquarters relocation to Nashville. Our relocation continues to proceed to very well. At quarter end, we had 815 Nashville-based employees, 2/3 of the way to our target of 1,250. For our major offices in the U.S. and EMEA, we plan to begin returning to the office early in the third quarter, which includes moving into our new Nashville headquarters building.

For the first quarter, estimated expense savings related to our Nashville corporate headquarters relocation totaled $10 million and transition costs of $7 million, resulting in a net $3 million increase in operating income for a net $0.01 accretion to EPU. Of the net $3 million, approximately $7 million is compensation-related savings, offset by $4 million of increased occupancy costs. For 2021, we continue to expect accretion of around $0.02 per unit, increasing each year thereafter. We continue to expect ongoing annual expense savings beginning in 2025 once the transition is over to be towards the upper end of the range of $75 million to $80 million.

With that, I'll turn the call over to Seth.

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

Thank you, Ali. Turning to Slide 23. In the first quarter, we continued to make progress on the dimensions we've previously outlined. We drove 4% active annualized organic growth with growth across channels, each channel led by active equities, alternatives and municipals. We expanded our suite of higher fee alternatives of our strategic partner, Equitable, leading multiple offerings. As Matt discussed, our future offerings align with their strong mutual interest in growing our yield-enhancing alternative strategies.

Closely managing spending as well as continued COVID-19-related travel and meeting restrictions enabled us to leverage double-digit top line growth, driving strong incremental margins well above targeted levels. As a partnership, we have a durably low tax rate, and we will pay a distribution of $0.81 per unit for the first quarter, a robust annualized yield of 8% in a low rate environment.

With that, we are pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Dan Fannon.

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

My question is on the pipeline and kind of momentum in the business. It seems like there's a bit of a shift more towards fixed income and alternatives versus equity that we've heard from you in the past. Can you maybe talk just a bit about the dynamics and also in the context of what's happening broadly in the market and the kind of growth to value rotation?

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

Thanks for the question. It's Seth. Look, the pipeline remains quite strong, as we indicated, at $15.2 billion. There has been a change in the mix of our pipeline. Part of that is a function of the lumpiness in some respects and some big mandates in fixed income and in CRS, which is our Customized Retirement Solution. So those do have a way, from a size perspective, but have much less of an impact from a revenue perspective.

If you look within the pipeline, we had about $6 billion odd of incremental -- we had about $6 billion -- $6.4 billion of incremental adds in the quarter. And the pipeline is about 15% equities, 20% fixed income, 40% alts, and the rest is in our multi-asset area, which would include our customized retirement solutions.

The activity level we are seeing with consultants of a large institution hasn't abated at all. But the mix is changing. We are seeing more interest in value as a general statement. But we're still seeing a number of equity mandates, so I guess I would say to you, the size of the underlying mandates doesn't necessarily reflect the actual amount of activity and the revenue and the average earnings rate that we see on the assets we're actually winning.

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

Okay. That's helpful. And then just as a follow-up, just want to clarify on the normalization of kind of promotion and servicing. Is that we're going back to 2019? Or kind of what's the right kind of framework? I understand the ramp could be -- is dependent on a lot of factors. But when you characterize kind of normal, what would that be?

Ali Dibadj - *AllianceBernstein Holding L.P. - CFO & Head of Strategy*

Yes. Thanks, Dan, for the question. So look, as you said, it's hard to tell. It will depend on client needs, it will depend on what competitors do. We certainly would like to have some savings versus historical normalized levels. It will be higher than 2020, we all hope, given what's going on right now, and we continue to believe in that. Probably not 2019 levels on a normalized basis, but it's hard to tell how much we think we can save versus that. So 2021 should be higher than 2020 for sure, maybe not as high as 2019 is how we think about it at this point.

Operator

(Operator Instructions) Our next question comes from the line of Mike Carrier.

Shaun Francis Calnan - *BofA Securities, Research Division - Associate*

This is actually Shaun Calnan on for Mike. So you mentioned infrastructure and renewables as areas that you're looking to grow in alternatives. Can you discuss your current offering, if any, and how quickly you can build that offering given the increased interest in these products?

Matthew Bass

Sure, Shaun. Happy to answer that. This is Matt. So I mentioned -- as I mentioned earlier, the growth strategy on the Private Wealth side is 2 pillars: organic growth, scaling core strategies, extending those teams and inorganic growth. On the inorganic side, we're certainly being led by our client demand -- global client demand, notably Equitable. And within that, the infrastructure and renewable space is an area of focus. So don't currently have an offering there, but that is one of the large scalable end markets that we're looking at with Equitable regarding potential expansion in the future.

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Operator

Our next question comes from the line of John Dunn.

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

Could you maybe give us kind of a check-in on the temperature of what you're seeing as far as M&A and team lift-outs with the markets being up a bunch but secular pressure is not going anywhere?

Ali Dibadj - *AllianceBernstein Holding L.P. - CFO & Head of Strategy*

Sure. Happy to do that, John. So look, there's a lot of M&A activity in the sector, large and small. And our view is that it will likely continue precisely to the pressures you've seen that you're describing.

Look, we see all the flow. We remain quite selective and true to our strategy. We're not going to become enticed by the next shiny object. And look, we believe and the markets have spoken, things that we've said before, which is that M&A mainly to cut costs has a very low probability of success, no matter the size. The probability is much higher for M&A. It's not perfect, right, but it's much higher for M&A if you can bring together complementary traits, whether that be products, channels, skills, geographies, some combination of those ideally. And that's where we continue to look and, again, are in the flow.

We are, we believe, coming from a position of strength. Hopefully, the past few quarters suggest that. And so we'll stay on top of the M&A activity that's out there. We'll be in the mix. But we're only going to do anything that, again, fits our criteria of bringing together complementary skill sets. Of course, as you heard from Matt, alternatives is a big part of that focus for us, and so that's where we're going to be very, very focused. And that fits our strategy and our growth trajectory. And so in particular, that's where we're going to be looking.

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

Makes sense. And then as my follow-up, maybe just if you could give an update on the main investment areas on the distribution side, maybe by the different parts of the channels and geographically?

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

Sure. It's Seth. Let me start with Institutional. I mentioned it a bit earlier when referencing around our backlog. We are seeing pretty strong activity in both Europe and the U.S. And a lot of that interest is around what we call responsible investing or Portfolios with Purpose, where we're seeing real interest particularly in Europe but also growing interest here in the U.S. And that crosses equities and fixed income. As Matt was alluding to, we -- there's continuing appetite for private credit. So as we have new capabilities to launch, we see pretty receptive audiences for it.

Moving into Retail, in Asia, we're seeing, which, as you know, is a very important market for us, there's continuing concern about interest rates and rising interest rates and inflation there. So that has impacted us from the perspective of our American Income and Global high-yield products.

On the other hand, frankly, given the extreme moves in treasury yields over the quarter and over the last sort of 4 or 5 months, I would say they're actually rather muted relative to historical experiences that we've had. Conversely, we're seeing quite a lot of demand for equities and multi-asset in Asia, equities notably in Japan. And so we've seen a much better mix, at least for ourselves in the Asian marketplace in Retail.

In the United States, big demand for munis. Muni SMAs have really been driving a lot of interest for us, and equities continue to be pretty strong here, as you can see. And in Europe, slower from our perspective, but equity is certainly there, and fixed income to a lesser degree. And finally, private client had a very robust first quarter. And demand is really, I think, a function of people taking cash and investing. We had a significant cash

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buildup over the course of the year with our clients and putting it to work both in alternatives and elsewhere. So I see continuing interest and more appetite than we've seen in a while.

Operator

Our next question comes from the line of Kareem Afifi.

Kareem M. Afifi - *Crédit Suisse AG, Research Division - Research Analyst*

This is Kareem filling in for Craig. My first question is on the private wealth channel. So there was a 23% sequential improvement in redemptions. Could you talk a little bit about what the drivers behind this improvement and if we should expect decelerating redemption activity in this channel in the future?

Catherine Cooney Burke - *AllianceBernstein L.P. - COO*

Thanks for the question. It's Kate Burke here. Yes, we did have a strong quarter with the net flows of the $1.7 billion. Look, I think that's attributable to a number of factors over the course of the pandemic and really the commitment of putting clients at the front and center of everything we do, whether it's through the investment offerings that we've added to the platform and the thought-leading wealth advice as well as the strength of the overall just adviser and service team really putting the client at the forefront.

But based on the wealth model and allocation advice, we did begin, as Seth just mentioned at the beginning of the year, encouraging clients to redeploy cash to higher-earning asset classes. And the success of this campaign did move cash from the sidelines, with both federated cash and holding cash down about $300 million each.

So we continue -- we do continue to see movement there. We're also planning significant product launches in 2021 in alternatives again as well as around ESG and as Seth also mentioned, the strength of the SMA platform to meet the evolving client preferences, again, while always focused on their outcomes. So we can't predict flows, but we're pleased with the success we've seen so far this year and are very focused on continuing to grow the business in the coming quarters.

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

I guess I would just add to that. I think we also had improved investment performance which helped private bank with respect to retention. And I think that's continuing.

Operator

(Operator Instructions) And there are no further questions at this time. Mr. Griffin, I turn the call back over to you.

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

Okay. Thank you, operator. Thank you, everyone, for participating in our conference call today. Feel free to reach out to Investor Relations with any further questions, and have a great day. Thank you.

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