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AllianceBernstein Holding L.P.

Third Quarter 2023 Earnings

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Jefferies; Analyst
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PRESENTATION:

Operator^ Thank you for standing by. And welcome to the Alliance Bernstein Third 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 AB, Mr. Mark Griffin.

Please go ahead.

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Mark Griffin^ Thank you, Operator. Good morning, everyone. And welcome to our third 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; and Bill Siemers, interim CFO.

Karl Sprules, Chief Operating Officer; and 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 two of our presentation.

You can also find our safe harbor language in the MD&A of our 10-Q, which we filed yesterday.

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^ Good morning. And thank you for joining us today.

In the third quarter, equity and fixed income markets pulled back from gains earlier in the year as yields remained volatile, moving higher throughout the quarter and reaching levels last seen pre-global financial crisis.

While retail investors continue to sit on the sidelines favoring cash assets offering more than 5%, we believe that flows will eventually migrate back to bonds to supplement equity allocations as investors take advantage of higher yields and position portfolios to beat inflation.

Despite these industry-wide headwinds, AB posted organic growth in several key services as we executed on our strategic initiatives. We continue to gain market share in retail, driven by organic growth in both taxable and muni bonds.

Our municipal SMA platform reached $20 billion in AUM, growing organically in 12 of the last 13 quarters and having more than doubled over the last five years. Active equity grew 7% annualized in institutional. Our active ETF platform celebrated its one-year anniversary, now at just under $1 billion in assets under management. And we saw net inflows into private markets led by AB CarVal's Clean Energy Platform.

Let's get into the specifics, starting with a firm-wide overview on slide four. Gross sales were $25.2 billion, up $5.4 billion or 27% from the year-ago period, and up $2.8 billion or 13% sequentially. Firm-wide active net flows were almost flat, down $100 million.

Quarter-end assets under management of $669 billion increased by 9% year-over-year, but were down 3% sequentially. While average assets under management of $690 billion was up 5% year-over-year and up 2% sequentially.

Slide five shows our quarterly flow trend by channel. Firm-wide third-quarter net outflows were $1.9 billion. Retail gross sales of $16.9 billion increased 22% year-over-year and 3% sequentially. Net inflows were $1.6 billion, reflecting continued strong demand for taxable and municipal fixed income, up 7% and 14% annualized organically, respectively.

Our institutional channel had gross sales of $4.3 billion, improved from both prior quarters. Net outflows were $3.5 billion as taxable fixed income and passive equity outflows more than offset $1 billion of net inflows from active equity.

In private wealth, gross sales were healthy at $4 billion, driven by money market funds. Net flows were flat as redemptions normalized as compared with lighter redemptions in the third quarter of last year. On a year-to-date basis, two of our three channels are flowing positive, with retail and private wealth generating net inflows of $2.5 billion and $1.7 billion, respectively.

Investment performance is shown on slide six, starting with fixed income. During the quarter, developed market government bond yields rose and overall returns fell in all major markets. Longer maturity government bond yields spiked in late September after the Fed released its updated quarterly Dot Plot that showed U.S. interest rates will likely be higher for longer than anticipated.

High-yield bonds had positive returns of 85 basis points, materially outperforming government bonds in the Eurozone and the U.S. In the face of this rate volatility, AB's fixed income performance remained strong, with 73% of our assets outperforming over the one-year period, 74% over the three-year, and 62% over the five-year.

Despite investors remaining cautious in adding duration, we experienced $900 million of net inflows into our American Income Fund, now totaling $4 billion year-to-date. We celebrated our 30th Anniversary of American income in July with campaigns around the world.

Turning to equities, as bond yields rose, global equity sold off following a rally in the first half of 2023. The S&P 500 declined 3.3%, bringing year-to-date returns to 13.1% in U.S. dollar terms. Growth stocks sold off most as the focus turned back to macroeconomic uncertainties from the excitement over the potential for artificial intelligence early in the year, with value and minimum volatility stocks falling less.

Our equity performance continued to lag mega-cap tilted benchmarks, with 32% of equity assets outperforming over the one-year period. Our three-year and five-year performance remained stable at 49% and 50% of assets outperforming respectively. Importantly, we continue to outperform the Morningstar Peer Group with 64% and 69% of our equity assets outperforming over the three- and five-year periods, respectively.

Now, I'll review our client channels, beginning with retail on slide seven. Gross sales increased versus both prior periods, while the redemption rate improved at 23% versus 27% last quarter and 30% a year ago, contributing to net inflows of $1.6 billion. For the twelfth time in the last 14 quarters, we saw strong organic growth rates in U.S. retail, up 12% annualized for both the third quarter and year-to-date.

In taxable, we saw strong growth in money funds and continued inflows in American income. Muni sales inflows also continued to be robust, with net inflows once again of $1 billion or 14% annualized organic growth. The breadth of our muni SMA platform is more expansive than ever and reflects the success of multiple customized strategy wins at major brokerage firms, as well as turnkey asset management programs on-boarding more AB SMA products.

We expect to roll out additional duration customizations on a major brokerage platform before year-end. Our active positioning, enhanced customization features, lower fees, and technology edge which contributes to generating Alpha, are the main selling points of our muni SMA strategies today.

Our new muni SMA Service Center is designed to enhance our overall SMA service model in U.S. retail by providing our sales staff and financial advisor partners with easy access to important client deliverables. As shown on the bottom right, we posted top flow rankings across asset classes, ranking in the top 5% of U.S. retail flows in equities and munis, and top 3% for cross-border flows for fixed income.

Finally, one year into our active ETF program, we're pleased to be just $20 million shy of $1 billion, a level only one in five active ETF sponsors attained in their first year. We have additional fixed income launches scheduled later this year following equity launches earlier in 2023.

Turning to institutional on slide eight, third quarter gross sales were $4.3 billion, up $2.4 billion from last year and up $2.8 billion sequentially. Net outflows were $3.5 billion, concentrated in fixed income and passive equities. Higher interest rates drove repositioning by several clients, exemplified by a large insurance client for whom rising interest rates created hedge volatility, requiring them to post collateral and reduce their gross positioning.

Our pipeline was $12.5 billion at quarter end, down $1.9 billion sequentially. We experienced fundings of $2.5 billion, including $1.3 billion U.S. large cap growth mandate and over $200 million in AB CarVal's Clean Energy Fund.

We added $300 million mandates for both tax-aware fixed income and low volatility high yield, complemented by active equity wins and sustainable global thematic in China A-Share's value. Equitable's initial $10 billion private markets program announced in mid-2021 is now 80% deployed and we are progressing on discussions for future opportunities, including for example, NAV lending.

Reflecting the success of our growing insurance focus, I'm pleased to share that we recently won two 2023 Insurance Asset Risk Americas Awards, Alternative Manager of the Year and Asset Manager Investment Team of the Year. While conditions for private alternatives fundraising remain more challenging, we're executing on three focus areas. The first closed for European Cred Secured Income Fund, Secured Income Fund Plus, targeting overall fund raise of $500 million, focused especially on investors in Europe and select Asian markets.

AB CarVal's credit value fund six fund raise in all global regions targeted at $2.5 billion and continuing to raise capital in our direct lending evergreen funds with particular focus on our AB private credit investors business.

Moving to private wealth on slide nine. Third quarter gross sales remained healthy at $4 billion, down 2% year-over-year and down 9% sequentially. We continue to experience strong sales and money market funds, municipals and proprietary passive equity tax harvesting strategy, which grew to $3.1 billion, hosting strong annualized organic growth of 31%. Third quarter net flows were flat, though up on a year-to-date basis, 2.2% annualized organically and on track for a third straight year for organic growth.

Over the last 12 months, AUM growth from business sales has outpaced the industry as measured by M&A volumes and pre-transaction planning pipeline remains solid. Year-to-date alternative capital raises were $1.6 billion with third quarter sales focused on private credit and secondaries.

I'll finish our business overview with the sell side on slide 10. Third quarter Bernstein Research revenues of $94 million increased 3% year-over-year and 2% sequentially. We experienced modest growth in research payments versus the prior periods. Industry-wide global institutional equity trading volumes remain constrained with the exception of improvement in Japan equities.

We launched coverage of two new sectors this past quarter and our 20th annual Pan-European Strategic Decisions Conference was a resounding success with over 400 clients attending. Our joint venture with Societe Generale remains 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 11. Performance and fixed income remain strong, while equities continue to lag versus concentrated capitalization weighted benchmarks. Active net inflows in the third quarter were nearly flat despite a challenging backdrop.

Third quarter results were led by retail which posted 10% annualized organic growth in fixed income with growth in both taxable and municipal. Institutional active equity annualized growth is 7% more than offset by fixed income net outflows, reflecting a higher yield environment.

Year-to-date, two of our three channels, retail and private wealth, have posted organic growth. Our muni SMA platform reached $20 billion in assets under management having more than doubled over the last five years and up 9% annualized organically in the quarter.

Adjusted financial comparisons improved over the prior year period with operating income up 13%, operating margin of 28% up 220 basis points and earnings and unit holder distributions of $0.65 per unit up 2%. Lastly, we've made progress in our CFO search, which is in its final phase and should be concluded in the near term.

Now, I'll turn the call over to Bill Siemers to discuss financials. Bill?

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Bill Siemers^ Thanks, Seth. Let's start with the gap income statement on slide 13. Third quarter gap net revenues of $1 billion increased 5% from the prior year period. Operating income of $175 million increased 3% and the operating margin of 17.2% decreased by 110 basis points. Included in GAAP operating expenses was a $13 million adjustment reflecting a change in estimate of a contingent payment arrangement as compared with the prior year period. GAAP EPU of $0.50 in the quarter decreased by 11% 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 unit holders 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-Q.

Our adjusted financial highlights are shown on slide 14, which I'll touch on as we talk through the P&L shown on slide 15. On slide 15, beginning with revenues, net revenues of $846 million increased 4% versus the prior year period and were up 3% sequentially. Base fees increased by 1% versus the prior year period as 5% higher average AUM was offset by our lower fee rate.

The third quarter fee rate of 39.9 basis points decreased 4% year-over-year, driven primarily by mix reflecting organic growth into lower fee rate fixed income products, including money markets. Third quarter performance fees of $28 million increased by $18 million from the prior year period, mainly due to higher fees on private credit services. Given current market conditions, we now see full year 2023 performance fees in line to slightly above the prior year level.

Third quarter revenues for Bernstein Research Services of $94 million increased by 3% from the prior year period, driven by a modest increase in research check payments. Dividend and interest revenue of $46 million, the vast majority of which is derived from our broker dealer, increased by $19 million year-over-year, reflecting the higher interest rate environment partially offset by lower average balances.

Netting against this is broker dealer related interest expense associated with our private wealth brokerage clients. Interest expense of $28 million increased by $7 million year-over-year, due to higher interest rates and was up $2 million sequentially.

Moving to adjusted expenses, all-in our total third quarter operating expenses of $609 million were up 1% both year-over-year and sequentially. Total compensation and benefit expense was essentially flat with prior year period. As a 4% increase in revenues was offset by a lower compensation ratio of 49.5% of adjusted net revenues, as compared to 51% in the prior year period.

As you know, we have accrued for compensation at 49.5% of net revenues through the first three quarters of the year. Given current market conditions, we believe that our fourth quarter 2023 compensation and revenue ratio will remain at 49.5%, subject to crystallization of full year revenues.

Promotion and servicing costs increased by 6% from the prior year period, driven by higher T&E expenses. Promotion and servicing costs decreased 5% sequentially due to seasonally lower firm meetings and T&E. G&A expenses were essentially flat in the third quarter versus the prior year period and declined 1% sequentially due to lower portfolio services fees. For the full year, we continue to target promotion and servicing and G&A growth below inflation levels up low single digits.

Third quarter adjusted operating income of $237 million increased by 13% versus the prior year period and was up 7% sequentially. Third quarter adjusted operating margin of 28% increased 220 basis points year-on-year. As a reminder, last quarter we moved interest expense below the adjusted operating income line in order to facilitate comparability with peers.

As shown in footnote two on this slide, interest expense increased by $8 million from the prior year period, reflecting higher interest rates and higher borrowings, and decreased $1 million sequentially reflecting lower average borrowings.

As outlined in the appendix of our presentation third quarter earnings exclude certain items which are not part of our core business operations. In the third quarter, adjusted operating earnings were $62 million above GAAP operating earnings due to acquisition related expenses and interest expense.

Non-GAAP EPU was $0.15 above GAP EPU, primarily reflecting acquisition related expenses. The third quarter effective tax rate for ABLP was 5.7%. Our guidance for effective tax rate in 2023 remains approximately 5.5% to 6%.

Each year we typically repurchase AB Holding units in the open market to help offset units issued to our Annual Incentive Compensation Process. During the third quarter we repurchased 1.8 million units for $56.9 million. We completed the program in the first week of October.

We continue to expect the Nashville relocation will be accretive for the full year 2023, with compensation related savings more than offsetting increased occupancy costs, and we will provide you with an annual update at year end.

With that, we are pleased to answer your questions.

Operator?

Operator^ (Operator Instructions) Your first question will come from the line of Craig Siegenthaler with Bank of America. Please go ahead.

Craig Siegenthaler^ Thanks. Good morning, Seth.

Seth Bernstein^ Good morning.

Craig Siegenthaler^ So your muni's business continues to demonstrate organic growth strength in the quarter. And I think the SMA wrap was really, probably, one of the bigger factors there. But do you expect muni bond flows to reaccelerate further once the markets get confidence that interest rates have peaked? Because while your flows are really good, industry flows haven't really gotten good yet.

Seth Bernstein^ Thanks Craig and good morning. Look I think that the Street generally was too quick to call the turn in rates. So we've seen fixed income continue to trail year-to-date as rates have continued to back up. And so it's certainly understandable to me, why we haven't seen industry flows in munis or taxable frankly more broadly grow much larger, because for the first time since the financial crisis, holders actually have yield to supplement the diversification.

My own way of thinking Craig to hit your point square on is I actually think we should see broader industry positive flows and munis as rates stay elevated and inflation gets more under control, because frankly, demographically, we have incredible demand from clients for income in their portfolios. They take great comfort and frankly muni credit quality is so high and muni credit decay is so slow. I think it's going to be a winning area.

When that exactly happens, when the Fed is actually on pause, we'll see. We think there could be a couple of quarters here or more where the Fed is on hold after their next meeting next month. So I think we're near it, but we're not there yet. I hope that answers your question.

Craig Siegenthaler^ Thanks Seth. And just for my follow-up. One of your peers this morning disclosed that they are going to have large sub advisory redemptions in November-December. In addition to it sounds like some negative seasonality. At this point, when you look at your pipeline and think about your conversations, are you seeing any pickup on the redemption side across the business towards year end?

Seth Bernstein^ Let me -- actually why don't I just turn that over to Onur to answer.

Onur Erzan^ Sure, thanks Seth. The short answer is, no. We don't expect any major sub advisory terminations. At least we are not aware of any major ones. Obviously hard to predict, but that's where we stand right now. I mean if you look at the redemptions to-date, we typically avoided massive large mandate terminations in the institutional more broadly, particularly in the higher fee categories.

Craig Siegenthaler^ Thanks Onur.

Operator^ Your next question will come from the line of Alex Blostein with Goldman Sachs. Please go ahead.

Alex Blostein^ Hi good morning everyone. Thanks for the question. Seth I was wondering if we could start maybe with your outlook on the alternatives business. You guys have been putting up nice flows there for a number of different reasons. But as you look forward, maybe help us frame what the dry powder in the business is that will turn on these upon deployment. And just zooming out a little bit, what is the trajectory for some of the new initiatives that you guys are unfolding over the next 12 months.

Seth Bernstein^ Alex, thanks so much. And I will start, but I'm going to ask Onur to jump in and just add to it. But we continue to see improving opportunities to deploy, just given deteriorating credit market conditions. We see that in our commercial real estate debt business where we continue to have significant dry powder.

We see that in PCI, our middle market lending business, where we're seeing new and different opportunities arising. And in CarVal, as I think you may know, we're beginning to start the process for CVF, CarVal value 6, which is their flagship fund. We're targeting $2.5 billion. That's the same as what we did last time.

We're trying to be cautious just given the headwinds in the fundraising market. But we have considerable dry powder through our three major private credit businesses. But Onur, why don't I let you provide a bit more color.

Onur Erzan^ Thanks Seth. That's great summary. If I were to add a few minor things, we are number one. We are on track to launch our first interval fund out of CarVal, the opportunistic credit interval fund. We expect that to help us both, in our own private wealth channel, as well as in third party channels. So that's going to be a nice addition to our lineup.

As you know, we have done non-traded BDC and REIT kind of structures in our private wealth before. But this is the first time we are launching an interval fund, both for our internal and external clients, so excited about that.

And then as Seth mentioned, our private alts AUM continues to grow and we have a significant amount of dry powder. And in this environment as the M&A activity accelerates as the price discovery in real-estate comes to an end, I think we will have plenty of good opportunities in attractive vintages that should help our deployment returns, as well as in certain cases where we have performance fees and carry, also those aspects of our revenue structure.

Alex Blostein^ Got you. I'm sorry. And what was that dry powder number again that will turn on upon deployment?

Onur Erzan^ Yes. Sure. Our dry powder, if I include all the channels would be around $14 billion.

Alex Blostein^ Got it. Okay. Great. For my follow-up, I wanted to dig into your active ETF offering. I know it's small, approaching about $1 billion in the context of the firm. It's not huge, but it's been an important driver near term of flows for you guys. So as you sort of think about the forward strategy, Seth, I think you mentioned a couple of new launches as you look out into 2024. What's the vision for the active ETF business and where are you finding the most success? Is that largely distributed through the private wealth business within Alliance Bernstein or you're seeing success with third party channels as well?

Seth Bernstein^ Actually, I'm going to pass it to Karl. I'm sorry, I'm going to pass it to Onur, because I think he's closer, but I'm more interested in what you have to say Onur.

Onur Erzan^ Yes sure. Thanks again Seth. Yes we're excited about the progress to date of our active ETF business. We had our first anniversary in September and we hit almost $1 billion of AUM, which is a very good launch, which puts us I think one out of five in terms of successful launches in this space. We have multiple paths to success. In our view, it's not only our proprietary channel, private wealth. We have actually got a lot of good wins in third party channels.

In terms of the vision, I think the vision is three parts. One, complement our vehicle agnostic strategy with active ETFs, where that vehicle agnostic strategy helps clients. So we touched on muni area in the previous question for instance. So we are complementing our muni SMAs with ETFs. So that definitely is an additive strategy. Helps with our momentum, so definitely that vehicle extension is one part of the strategy.

Second part of the strategy is opening new doors. Obviously, the RA space is a heavy user of ETFs. Historically they were passive ETF users, but we are seeing more and more interest in the active ETF wrapper from those channels. So that helps us open new doors.

And then finally, there's still a broader set of opportunities in institutional, including insurance clients when you achieve certain thresholds in terms of AUM, etc. Given the liquidity of fixed income ETFs for instance, we are quite optimistic about the long-term prospects as well. So that's our go-forward strategy and you will see us add products across equities, fixed income and multi assets such as buffer.

Seth Bernstein^ And I would just add Alex, while private wealth will increasingly be an important user I think given their needs, the real driver isn't private wealth at the moment. It really is third party, who are looking at it as building blocks for portfolios they are managing.

Alex Blostein^ Awesome. That's great. Thanks for all the color. I appreciate it.

Operator^ Your next question comes from the line of Dan Fannon with Jefferies. Please go ahead.

Dan Fannon^ Thanks. Good morning. I was hoping to get a bit of a progress report on CarVal. 16 months or so post deal. You mentioned your fundraising environment being a bit difficult. But just in terms of how you had modeled and thought about this business to-date. Where it's been versus kind of those expectations and maybe a little bit more of a look forward over the next kind of 12 months and what we should be anticipating.

Seth Bernstein^ Thanks Dan. Let me start and Karl might -- Onur might jump in as well. I keep saying Karl just to keep him awake. But look, I think as we have mentioned, while the market, the fundraising market is more challenging as rates have risen. It's certainly also the case that the opportunity set, at least from our vantage point has improved and improved meaningfully. And so we are seeing areas to deploy and sort of beyond -- I'll focus on CarVal, but there are also topics that I would like to focus on beyond that.

In addition to CarVal's CVF 6, CarVal Value Fund 6, which as I mentioned we target for $2.5 million. We completed the Clean Energy II fund, that was triple the size of the first fund. They were already on the road with it when we closed the acquisition in July of last year. But we're very pleased despite the markets, to have gotten to $1.5 billion, and we're in process of deploying there as well.

We also are working with CarVal as Onur alluded to on an interval fund that we think has real application, both within our private wealth channel, but also beyond that, which is a more opportunistic kind of strategy. And CarVal as well along in its mandate with Equitable on a residential mortgage mandate which is -- I think it was $750 million in total size.

So on balance, I think from a new business perspective it's moving as well as we could expect. But we are mindful of challenges in the fundraising markets, hence our desire to be conservative in our estimates on CVF 6 as we go out of the blocks there.

But we're also seeing opportunities in our Euro Cred Secured Income, Secured Income Fund Plus target, which is a $500 million fund raise really targeted at European and Asian investors. We're also seeing a focus on our private credit investors business in our direct lending evergreen funds, where we're seeing appetite.

Culturally, moving over to the other side Dan, because you asked about how the acquisition is going, I don't know that I could be more satisfied by the cultural alignment we've seen, not just with the leadership of CarVal, but also I think more importantly in the different functions whether it's in our distribution, their capital raising group, in our technology operations across the investment teams.

They've been greeted and welcomed as partners and colleagues and I think they've taken a remarkably open stance in looking upon the firm as a resource, to help them enhance their potential, as well as to help us see what we can do better. There are best practices there that we need to adopt more broadly and conversely elsewhere from the firm to CarVal.

So we want to be slow and methodical. This was not intended to be an expense saving exercise, the acquisition of CarVal, but we're obviously mindful of that in tougher markets. We're pretty pleased so far. Turnover has been below where we had forecasted to-date. And on balance we're pretty pleased Dan with the progress.

I don't know Onur, if you have anything you want to add there.

Onur Erzan^ I mean on the commercial side, the pipeline remains diversified. We have a significant pipeline and again, the extension is very important here. Obviously flagship funds are always important for the economics of the platform, but we are seeing a lot of nice extensions. For instance insurance, we started with Equitable but we are getting a lot of interest from other insurance clients as well. So those kind of extensions are quite additive to our strategy.

And then furthermore, obviously you could argue some of the dislocations in the market with the banking crisis earlier in the year, which happened after we closed the transaction. It creates a lot of interesting opportunities for deployments as the banks are looking for partners to create more capital efficiency, and deal with some of the upcoming new capital requirements from Basel and other regulatory bodies. So we see that being another momentum to hopefully will accelerate our deployment in the coming quarters.

Seth Bernstein^ Just to finish it up, the pipeline is $3.7 billion for CarVal. Just to put that in context, Dan. So hopefully that answers your question.

Dan Fannon^ Great, that's very helpful. I guess also just thinking about the fee rate at a consolidated level, mix and beta and some of the things that put a little bit more pressure on it to date. The backlog seems like that's additive. So, I guess just thinking about the fee rate and what your outlook is over the kind of next 12 months and how you think that can trend based upon business trends, demand trends and asset flows.

Bill Siemers^ Hi Dan, it's Bill. I mean, we continue to expect the fee rate to be mix-dependent. I mean, we've had experienced organic growth in lower fee products such as money markets, munis, private placements. We are seeing outflows in higher-fee active equities. So we're definitely going to be dependent on markets, interest rates, investor risk and return appetite.

I mean, but we do have, as we've mentioned a few times, the institutional channel is supported by higher private alts exposure with the pipeline fee rate three times the channel average. I mean, so that's encouraging there, but no specific guidance.

Dan Fannon^ Okay. Thank you.

Operator^ Your next question will come from the line of John Dunn with Evercore ISI. Please go ahead.

John Dunn^ Thank you. You guys talked about potentially a third positive year for private wealth management. Maybe just looking ahead over the next year, can you frame what strategies you think are going to be in demand that could potentially set up a fourth positive year?

Onur Erzan^ Sure, yes. As you pointed out, John, year-to-date we had healthy organic growth. As the general risk of environment that's played out, obviously some of the flows have concentrated in shorter duration or lower risk strategies, on market funds, direct indexing and alike. It's hard to predict quarter-by-quarter. But if you think about the longer term, we continue to be quite optimistic about our ability to deploy private credit in the channel.

As you know, we have around $10 billion of alternatives in our private wealth platform. We have done it for many years. And as we launch new products, as I mentioned earlier, with CarVal, with others, it will help with the growth. And then from a broader perspective, despite all the kind of uncertainties with the economy and everything else, we stayed the course in terms of adding financial advisors to our platform.

So year-to-date our financial advisor headcount is up by 4%. So we are taking a through-the-cycle mindset in terms of investing in client facing resources in our private wealth business. So that should hopefully help us as a catalyst as well.

John Dunn^ Got you. And then, we don't always have to talk about passive, but can you remind us what the dynamics of that side are? Is it more tactical for investors and is there a potential for that money to come back relatively quickly?

Onur Erzan^ So on passive, particularly in the core client segments, lower complexity, lower value clients, we have some model portfolios that takes advantage of active-passive model portfolios, which is quite common in the industry. I mean, I would say that is much more structural than cyclical. So that I would highlight as nothing new in that regard.

I think the real -- I think fee acceleration to expect would be money market funds, cash, and some of the direct indexing type money going into higher risk, higher return strategies with higher fees. I think that’s how I would characterize the major migration that would be expected when rates stabilize and when the risk appetite is further back.

Seth Bernstein^ But just to give a bit more color, we do have institutional clients who turn to us, whether it's an accommodation or as part of a broader set of actions we're taking on their behalf to provide passive. And it's episodic, so I wouldn't suggest to you there's something imminent there. It's just that it does come and go.

John Dunn^ Right. Thanks very much.

Operator^ And there are no further questions at this time. Mr. Griffin, I'll turn the call back over to you.

Mark Griffin^ Terrific. Thanks everyone for joining our call. We appreciate your time today.

If you have any additional questions, please feel free to reach out to Investor Relations.

Have a great day.

AllianceBernstein Holding L.P.

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