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PRESENTATION

Operator

Thank you for standing by and welcome to the AllianceBernstein third-quarter 2017 earnings review. (Operator Instructions) As a reminder, this conference is being recorded and will be available for replay for one week.

I would now like to turn the conference over to the host for this call: the Director of Investor Relations for AB, Ms. Andrea Prochniak. Please go ahead.

Andrea Prochniak - *AllianceBernstein L.P. - SVP and Head of IR and Corporate Communications*

Thank you, Jack. Good morning, everyone, and welcome to our third-quarter 2017 earnings review. This conference call is being webcast and accompanied by a slide presentation that is posted in the investor relations section of our website, www.alliancebernstein.com. Seth Bernstein, our President and CEO; John Weisenseel, our CFO; and Jim Gingrich, our COO, will present our results and take questions after our prepared remarks.

Some of the information we present today is forward-looking and subject to certain SEC rules and regulations regarding disclosure. So I'd like to point out the Safe Harbor language, which is on slide 1 of our presentation. You can also find our Safe Harbor language in the MD&A of our third-quarter 2017 Form 10-Q, which we filed this morning.

Under Regulation FD, management may only address questions of a material nature from the investment community in a public forum. So please ask all such questions during this call. We are also live tweeting today's earnings call. You can follow us on Twitter using our handle @AB_insights.

Now I will turn it over to Seth.

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

Good morning and thank you for joining us. I'm pleased to report that AllianceBernstein extended its strong momentum in the third quarter. After nearly six months here, it's clear to me that AllianceBernstein's long-term strategy is working.

Our services continue to offer very competitive and differentiated return streams that our clients can't replicate for themselves. And we're making progress commercializing the diverse and relevant product suite we spent years building out. All while maintaining a relentless focus on integrating technology to increase our productivity and reduce costs throughout the Firm.

Now we are seeing the impact of those years of hard work in our results, which include year-to-date active net inflows of $13.5 billion, which is an annualized organic growth rate of 4%; outstanding track records across a broad set of offerings in fixed income, equities, and alternatives; a more balanced mix of business in all of our client channels; and the highest estimated fee base in our institutional pipeline at quarter end that we've seen since we started tracking this number five years ago.

Finally, in those same five years, AllianceBernstein added more than 600 basis points to its adjusted operating margin. This was through an improving revenue mix and rigorous ongoing expense reductions. Consequently, I'm confident in the strategic direction of the Firm and proud to be a part of its future.

So let's get into the specifics. Beginning with a Firmwide overview on slide 3, we again generated $20 billion in total gross sales for the quarter, consistent with both prior comparable periods. Total net inflows of $4.5 billion represents $4.9 billion in active inflows, partially offset by $400 million of passive outflow.

That's comparable to last quarter's $4.7 billion, and it's a big improvement from the $15.3 billion in outflows in last year's third quarter. That quarter we lost both the Rhode Island 529 college-bound fund assets and the alternative assets we had managed for a large institutional client.

Period end and average assets under management were up versus both prior periods on the back of both market appreciation and new assets during the quarter. In fact, our assets under management of $535 billion today is our highest since 2008.

Moving to our quarterly flow breakout by channel on slide 4, for the second straight quarter, all of our client channels generated positive net flows. In retail, which is in the top-right chart, it was our third consecutive quarter of both gross sales above $13 billion and positive net flows.

Institutional gross sales declined in the third quarter, but so did redemptions. So net flows inched up sequentially to $1.4 billion. That's the bottom-left chart. And private wealth gross sales were nearly $3 billion, with net inflows for the third straight quarter of about $100 million.

So now onto investment performance, which begins on slide 5. Performance across time periods remains robust for our investment services. With very few exceptions, our percentage of fixed income assets and outperforming services has ranged from the low 80%s to the low 90%s across time periods over the past year.

Equities experienced a sequential dip for the three-year period. That's because one of our largest equity services dropped out of the top half, but improved for the one- and five-year periods.

Slide 6 and 7 delve a bit deeper into the performance and rankings of an array of US 40 Act and Luxembourg retail funds that represent large or focused strategies for us. So let's begin with fixed income on slide 6.

Every fund on this slide ranks top quartile for the three-year period, as do all but two eligible funds for the five-year period. On slide 7, 12 of the equity funds shown ranked in the top quartile and seven in the top decile for the three-year period. Four of the eligible funds are top decile for the five-year period.

We also have multi-asset strategies that are generating strong sales momentum as they build competitive track records, like emerging markets multi-asset, a five-star Luxembourg fund ranked 2nd percentile for the three-year period and 5th percentile for the five-year period. It has raised $1.2 billion year to date. And our all-market income multi-asset income fund, which is 1st percentile in its category since December 2014 inception.

Now I will discuss our client channels, beginning with retail on slide 8. I'm very impressed with what our team has done to reinvent this business. During a period of quite challenging conditions, they built a leading Asia ex-Japan fixed income franchise, dramatically increased our presence in U.S. retail, and expanded and diversified the product set in a client-focused way.

That's creating strong momentum, including double-digit year-on-year gross sales growth, nine straight months of net positive flows totaling $7.8 billion, and year-to-date active net inflows of $9.1 billion in fixed income and $1.8 billion in equities. Asia ex-Japan fixed income remains our largest sales growth driver.

As you can see from the chart at the top left, industry gross sales of global high-yield funds, where we dominate, are up 64% year to date through August. Our regional sales of global high-yield have doubled in that period. So we are taking share as well.

Meanwhile, multi-asset and equities are growing as a share of our sales in that region. Thanks largely to the growth of our discretionary investment management business in Taiwan, multi-asset and equity represent 28% of our 2017 gross sales on an annualized basis. Compare that to 0 in multi-asset and 3% share in equities only 5 years ago.

Strength in the EMEA region also contributed to our quarterly sales growth. Total gross sales were up 43% year on year in the third quarter and 39% year to date, driven by exceptional growth in European equity, eurozone equity, and US large cap growth.

In the US, we've had nearly $2 billion in net inflows year to date, excluding sub-advisory. Investment performance is driving flow momentum. Let's take AB Income, a closed end fund we converted to open end status last year.

With a 1st percentile ten-year ranking in Morningstar's intermediate bond category, it's attracted $900 million in net inflows year to date, the most of any fund on our U.S. retail platform. And it ranks in the top decile for year-to-date net flows in its category.

Other top ranked AB retail funds include US Large Cap Growth, number six among 40 Act funds by net flows year to date, and Global High Yield and American Income and Luxembourg, ranked number one and number two, respectively.

The bottom-left chart shows how we have moved up in the performance ranks. Today we have 60 US and Luxembourg funds rated four or five stars by MorningStar. That's 10 more than this point last year and double where we were four years ago. So the stage seems set for further momentum in this business.

Moving on to institutional on slide 9. For years our focus in this business has been improving our business mix so we can increase revenues we generate. Initially, legacy performance issues held us back. Then a general slowdown in the industry kicked in, making matters more challenging for us and many others.

But we've kept at it, constantly showing consultants and clients that we can produce compelling returns and products most relevant to them. Now we are seeing progress reflected in both our flows and pipeline.

Gross sales of $3.3 billion in the third quarter included $1 billion in equities, our highest quarterly equity sales in 2 years, and $400 million in alternatives. And we finished with a $14 billion pipeline, with $11 billion in new editions. About $8 billion of that came from one new customized retirement strategies mandate.

Beyond that very large win, 8 of our top 10 new pipeline editions in the quarter were in equities and alternatives, which typically carry higher fees. As you can see from the chart at the top left, the estimated annual fee base on our pipeline is the highest it has been in five years.

And as the bottom-left chart shows, that estimated fee base is now dominated by equities and alternatives: 83% of the total at quarter end versus 21% in 2012. So despite challenging conditions, I feel good about how our institutional business is evolving.

Now I will talk about private wealth management on slide 10. As with retail, the evolution of our private wealth business has been years in the making and our efforts are resulting in accelerating momentum today. Year-to-date net flows of $500 million exceed our full-year 2016 total.

An important part of our strategy has been finding ways to appeal to a broader and more affluent client base with our offering. We've had meaningful success so far. Our average new relationship size has increased by more than 50% this year-to-date period from the same period 2 years ago.

And as you can see from the top-left chart, for our clients with $20 million or more, gross production and organic growth have both outpaced and increased faster than those of our overall client base for each of the past two years. Clearly, our targeted service efforts have been critical to this success. As the bottom-left chart shows, we've grown our total deployed and committed assets by 59% in the past year alone, from $3.9 billion to $6.2 billion.

Third-quarter launches included a BDC private credit vehicle and International Research Insights, a concentrated equity offering. The success of targeted services is also helping to raise advisor productivity, which is up 48% on average since 2013.

Finally, we are committed to improving the overall Bernstein client experience. In particular, we are working on new ways to engage our clients with technology. Soon we will be rolling out a series of website enhancements and our first-ever mobile application. We are implementing a new CRM strategy as well.

I will wrap up our business discussion with the sell side on slide 11. It's no surprise that the environment continues to be difficult for institutional research providers. The top-left chart on this slide shows the impact on Bernstein's revenues, which were down 3% year on year and 1% sequentially in the third quarter.

The bottom-left chart shows why. We have to go back nearly 10 years to find US volume and volatility levels this low. Despite these challenges, we keep making progress in positioning Bernstein as a global leader in both research and trading.

The third quarter brought new research accolades, another strong showing in the 2017 Institutional Investor All American Research Team survey for our US research team, as well as for our European Research Team in a prominent annual survey of European portfolio managers.

And for the first time, investors can now access Bernstein's best research ideas in ETF form. Earlier this month, a third-party launched two ETFs that track our Bernstein US Research Index and Bernstein Global Research Index.

Each index consists of stocks that our fundamental analysts rate outperform and that ranked highly in our quantitative models as well. Internally, we have watched these proprietary indices outperform for years, which underscores the value of our research in the investment process.

In trading, we just launched a new proprietary European smart order router, another way to grow our industry-leading agency trading platform and capitalize on strong electronic trading volumes outside the United States.

Finally, we continue to believe we will fare well relative to our competitors in a post-MiFID II world. Our client conversations so far suggest we will remain a core research provider for them and potentially gain meaningful share in the process.

Concluding with slide 12, you may have noticed some changes in how I articulate AllianceBernstein's strategy. I told you I'd have some suites and here they are. One, our focus on investment performance and product relevance remains paramount.

We must deliver differentiated return streams for our clients they can't otherwise replicate for themselves. I hope my remarks today have made our continued progress on this front clear.

Two, I truly believe that most of the hard work on broadening and diversifying our product offering is now behind us. We have a suite of competitive services across multi-asset, alternatives, equities, and fixed income. We just need to commercialize and scale it.

AB Income, which is shaking up the category of behemoths, is an example of that. Our FlexFee performance fee-based fund series is another. It certainly won't happen overnight, but we have the opportunity to both gather significant assets and define a new accountability standard for active mutual fund managers. We are already seeing large firms following our lead, so we must be onto something.

Third, we can't let up on our efforts to embrace technology to leverage new efficiencies and better manage expenses throughout our organization. Just as we did this quarter, we must generate faster revenue growth and expense growth, even as we keep investing in our most promising opportunities. I've joined a firm that is in its best competitive position in years and I'm focused on taking us forward from here.

Now I will turn it over to John for a discussion of our financial results. John?

John Weisenseel - *AllianceBernstein L.P. - CFO and SVP*

Thank you, Seth. Let's start with the GAAP income statement on slide 14. In the third quarter, GAAP net revenues of $812 million increased 9% from the prior-year period. Operating income of $162 million decreased 12%, and our 17.9% operating margin was 480 basis points lower.

The primary drivers of the decline in operating income and margin were: higher other G&A expenses due to nonrecurring items; higher real estate write-offs; and lower contingent payment reversals. GAAP EPU was $0.46 versus $0.52 in the third quarter of 2016.

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

Our adjusted financial highlights are on slide 15. Compared to the same prior-year period, third-quarter revenues of $660 million increased 8%. Operating income of $165 million increased 11%, and our margin of 25% increased 80 basis points.

We earned and will distribute to our unitholders $0.51 per unit, up 13% from $0.45 for last year's third quarter. Higher base fees combined with a lower comp ratio for the compensation accrual primarily drove the year-over-year improvement.

There were three nonrecurring items which reduced our third-quarter operating income by more than $16 million and EPU by $0.06 after accounting for the compensation effect. First, we took a $20 million charge to establish a reserve for a payment we plan to make to a third-party vendor as a result of the early termination of an outsourcing contract for our trade settlement and reconciliation processes.

We plan to transition these processes back to AB over the next two years. As a result, we expect to incur $2 million in additional transitional costs in 2018 and realize ongoing annual savings of approximately $11 million in G&A expenses beginning in 2019. This is another example of our continued efforts to improve the cost structure of our Firm.

Second, we took a $4 million charge to write down our investment in an oil and gas drilling partnership. Third, we recorded a $5 million P&L credit for a value-added tax, or VAT, refund relating to our business in Asia.

If it had not been for these nonrecurring items, our adjusted operating income would have increased 22% year over year and our operating margin would have been 27.4%, or 240 basis points higher than the 25% we reported. We delve into these items in more detail on our adjusted income statement on slide 16.

Beginning with revenues, third-quarter net revenues of $660 million increased 8% year on year. Third-quarter base fees increased 11% year on year due to higher average AUM across all three distribution channels and higher fee rate realization, reflecting a mix shift from lower to higher fee products.

Third-quarter performance fees of $4 million compared to $2 million in the same prior-year period and resulted from higher performance fees earned on our middle-market lending strategies. Third-quarter revenues for Bernstein Research Services decreased 3% year on year, due primarily to lower client trading activity in the US, partially offset by higher activity in both Europe and Asia. A weaker US dollar also contributed to our increase in European revenues.

Third-quarter net distribution expenses were $10 million, up from $8 million for last year's third quarter, the result of the distribution mix shift of Asia Retail Fund sales towards higher fee distributors. Investment losses of $2 million for the third quarter include the $4 million write-down of the oil and gas investment mentioned earlier.

Third-quarter other revenues of $29 million and interest expense of $7 million both increased from the same prior-year period. The increase in other revenue was driven primarily by higher dividends and interest earned on broker-dealer investments, while the increase in interest expense resulted from higher interest paid on broker-dealer customer balances.

Moving to adjusted expenses, our total third-quarter operating expenses of $495 million increased 7% year on year. Total compensation and benefits expense increased 4% year on year due to higher incentive compensation. Compensation was 48.5% of adjusted net revenues for the third quarter this year compared to 50% for the same period last year and 49% for the second quarter of this year.

With year-to-date adjusted revenues of 7%, we felt it was appropriate to reduce the comp ratio in the third quarter. The 50-basis-point reduction added approximately $0.01 to our third-quarter EPU.

We plan to revisit our comp ratio and adjust accordingly as we gain further clarity as to the full year's revenue and compensation requirements for our business. Given current market conditions, we do not expect the fourth-quarter comp ratio to exceed 48.5%.

Promotion and service expenses increased slightly year on year due to higher marketing expenses, but decreased 11% sequentially as expected due to a seasonal decrease in T&E and marketing spend for private wealth client meetings and the annual Bernstein Research US Strategic Decisions conference, which we held in the second quarter.

G&A expenses increased by 4% year on year. The entire $15 million increase came from the 2 nonrecurring items discussed earlier, the net of the $20 million outsourcing contract termination charge, and the $5 million Asia VAT refund credit.

Third-quarter operating income of $165 million increased 11% from the prior-year period as revenue growth outpaced expense growth. The third-quarter incremental margin versus the prior-year period was approximately 35%. Excluding both the comp ratio benefit and the adverse net effect of nonrecurring items, the incremental margin was 45%, reflecting the operating leverage of our business.

I mentioned on our second-quarter earnings call that we had identified additional opportunities to further consolidate our office space. During the third quarter, we vacated an additional floor at our New York headquarters to market for sublease and recorded a $19 million real estate charge for GAAP reporting to generate additional ongoing annualized occupancy savings of approximately $3.6 million starting next year.

The cumulative occupancy savings from our second- and third-quarter office consolidation efforts is expected to be approximately $9 million on an annualized basis beginning in 2018. Our estimates for both the real estate charge and corresponding expense savings are based on our best current assumptions of the cost to prepare the properties to market, the length of the marketing periods, market rental rates, broker commissions, and subtenant allowances and incentives.

We expect the actual total charges eventually recorded and the related expense savings realized will differ from our current estimates as market conditions change over time.

You may have noticed that our third-quarter adjusted EPU was $0.05 higher than our GAAP EPU and our adjusted operating income was $3 million higher than our GAAP operating income. This is primarily due to the net effect of three items we excluded from our adjusted results because they are not part of our core or recurring business operations.

The first is the $19 million real estate charge I mentioned earlier. Second, we recognized a $5 million income tax credit when we were able to lower the estimate for the tax liability for the deemed dividend from foreign affiliates that we recorded in the third quarter of 2016.

Third, we deconsolidated certain seed investments in our adjusted results that we had consolidated for GAAP reporting. Consolidating these investments increased operating income by $16 million, but did not affect net income or EPU. All of these non-GAAP adjustments are outlined in the appendix of this presentation.

Finally, the third-quarter effective tax rate for purposes of calculating adjusted EPU for AllianceBernstein LP was 6.2%, about as expected. The third-quarter GAAP effective tax rate for AllianceBernstein LP was 2.8% and reflects the $5 million income tax credit discussed earlier. We highlight these points and offer sequential-quarter comparisons on the next slide of this presentation as well.

And with that, Seth, Jim, and I are pleased to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Michael Carrier, Bank of America.

Michael Carrier - *BofA Merrill Lynch - Analyst*

John, maybe first one, just on -- given some of the adjustments in the quarter and where the margin is and then given your commentary on the comp ratio, just wanted to get an update.

When you look at the trends in the business and how you guys are controlling the cost structure, maybe an update on where margins can head if you continue to see good healthy organic growth, fees are heading in the right direction, and some of the initiatives that you guys have going on on the expense side to lower some of like the G&A line and the comp line. Just maybe an update there, because we've kind of been stuck in this kind of low-mid margin range and it seems like you've got more potential here.

John Weisenseel - *AllianceBernstein L.P. - CFO and SVP*

Sure, Michael. As we have always said, there is operating leverage in the business. As AUM moves higher, the markets move higher, the flows move higher, we should see more and more drop to the bottom line.

So in this quarter, as I mentioned, the incremental margin was 35%, but we did have those nonrecurring items. And when you strip it out, we are at 45%. So I think on the upside, as revenues -- if revenues continue to increase, we should be looking for incremental margins in the 40% to 45% range.

And when you look at the different expense lines, the G&A promotion servicing, over the longer haul, I think we should be looking for those to grow in line with inflation.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Okay, that's helpful. And then as a follow-up, Seth, just on I guess both on the pipeline and the flow trends and fee rates, just want to -- a couple questions on that. But when I look at the pipeline on the institutional side, it seems like there's a lot of momentum. And not only on that lower fee mandate, but also on the equity and the alternative side.

And then just wanted to get an update on like the FlexFee series, what kind of traction you are seeing in the distribution channels. And if I think about that fee rate over the next year or so, are you still seeing the demand where the fee trends can continue to be on a net positive versus I think in a lot of areas of the industry, we are seeing the other trend?

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

Thanks, Mike. Let me take it in turn and I think Jim or John might chime in. It's sort of a long question, so if I miss some of it, don't be offended. Just ask again.

We are seeing a better tone to our pipeline than we have in the recent past. And it's certainly the mix is improving, and we are seeing that not just in the US, but outside the United States as well. So there is potential, absolutely, for better mix to continue as we move forward and -- but of course, that's contingent on client activity and overall market conditions, as you know.

With regard to the FlexFee Fund Series, couple of points here. Conversations are ongoing with our major distributors. I think they are going well. We are sort of working up to beginning in earnest at the beginning of the first quarter to begin the process of marketing funds and it will be our focus for the first half of 2018.

We think there is significant potential here to gather additional assets. We think it realigns client expectation of share, of excess returns that managers are taking versus what they, our clients, are keeping. We think it's a credible alternative to those who are incredibly fee conscious today. I don't think that's going away.

So I think it fits nicely into buying patterns that we are seeing evident in the broader marketplace. But I might have missed part of your question, so just could you repeat what I missed?

Michael Carrier - *BofA Merrill Lynch - Analyst*

No, you hit it all. Thanks for the answers.

Operator

Bill Katz, Citi.

Bill Katz - *Citigroup - Analyst*

Thank you much. Good morning, everyone. Appreciate taking the questions. First question is just a big picture question, Seth. As you've sort of now spent six months at the helm, as you mentioned, you feel the business is in good shape.

If you look at your gross sales overall, they've been relatively flattish in this $20 billion range. And as you highlight, a number of favorable things going on both across and within each of the segments.

How do you think about better leveraging that through this system? How do you think about the volume versus margin discussion? I know you answered in the incremental margin, but is there maybe a strategic move here to maybe accelerate marketing and/or other spending to potentially capture some of the opportunity here?

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

It certainly -- and I think I said this in my last call with you guys at the end of the second quarter. I certainly think the buildout of the product suite is essentially done. That doesn't mean we wouldn't be opportunistic if we found another great idea internally or externally and the team to go and capitalize on that.

This Firm made what I think was an astute but painful decision to downsize its distribution capability several years ago, as it had much less to sell, and has redeployed. We need to rebalance that. We are doing that.

Distribution I think was the single-largest investment we are making. And our expectations and what we are beginning to see, whether it's in our private client channel, whether it's in our retail and institutional, is a much higher volume of throughput by our individual sales teams.

So I don't know, John or Jim, if you want to add to that.

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

I guess what I would add is, Bill, we are very conscious, going back to comments that John made earlier, about where we sit from a margin standpoint. And so as we move forward, there is a balance that we are striking between investments in various parts of our business and managing the business for the long haul as well as ensuring that we continue to manage our cost structure.

So as Seth indicated, the Company made substantial investments in our investment capabilities over the course of the last five years. A number of those investments are starting to season, which helps contribute to bringing the compensation ratio down. Now, we may choose to reinvest a portion of that back into the business to the extent that we see opportunities to accelerate growth, but that's to be determined.

Bill Katz - *Citigroup - Analyst*

Okay, thank you. And then just as a follow-up, you had highlighted the FlexFee. And just sort of a two-part question for that. Number one, how do you think about some of the operational risks, given the potential for a variable fee structure? Just I think through comp and maybe capital.

And then the second question is let's say that this actually does take off. How do you think about the back book in terms of cannibalization of pricing to your legacy platform?

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

Well, let me take the second part of it first. I think we have thought a lot about the risk of cannibalization. We don't think it's significant.

First, and maybe stating the most obvious thing, moving out of one fund into another is a taxable [event] for our clients. And while I don't know the positions by service, I bet there are number of embedded gains there that would cause people to hesitate at least at the moment.

But that said, we have targeted this service or these fees to clients who are very fee-focused and are willing to give up a larger piece of the upside as performance continues to improve. We think there are different shades of client out there, and so they will choose what they want to choose with respect to the funds.

But frankly, we think that's broadly where the market is going, so we might as well start there. And we think we have more benefit than we have potentially to lose in that regard.

From an operating perspective and a risk perspective, we are very conscious of not creating incentives for portfolio managers to do things in order to hit specific targets. So we spent quite a lot of time and effort in our risk and monitoring to ensure that we are within our own internal guidelines as we think about risk-taking amongst our portfolio management teams.

And operationally, and maybe I will defer to Jim on this, we've thought through the complexities of the operational matters here. But we are striking the NAV every day and calculating our performance daily. So that should guard against some of the potential risks there. But, Jim?

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

I really don't have much to add to what Seth just said. From a P&L standpoint, Bill, we've got $2-5 billion-plus in revenue, talking about 6 funds. I think if we find ourselves gathering significant assets, that's going to be a good problem, not a bad problem.

I think we will have a much better handle on this sometime in the first half of next year as to what the trajectory looks like. But look, at the end of the day, we think this is the right thing to do. It's the right thing for clients. It creates the right incentives for managers. And it's where the -- it's a direction that the industry needs to begin to move towards.

John Weisenseel - *AllianceBernstein L.P. - CFO and SVP*

And Bill, it's John. I would just add that, again, this is a -- it's going to take a while to ramp these up. We just seeded them; we are in the process of getting them on distributor platforms. But when you think about 2018, this I would not expect to have a material impact at all, either positive or negative, on our P&L.

Bill Katz - *Citigroup - Analyst*

Okay, thank you very much for taking the questions this morning.

Operator

Robert Lee, KBW.

Robert Lee - *Keefe, Bruyette, & Woods, Inc. - Analyst*

I guess my first question would be in the targeted services and committed assets, you pointed out in the presentation it is grown pretty dramatically the last year to $6 billion. I guess a couple things around that.

Number one, is that entire $6 billion in AUM or is that really just the commitments that haven't really been drawn down yet? And since that business -- those strategies have focused on your wealth management clients, what's the thought about maybe institutionalizing that in a sense of starting to roll it out to a broader base of institutional investors?

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

To your first question, it's a combination of both AUM and committed. And your observation is a good one. We are in the process of rolling out a number of these services to our institutional client base.

So for example, our middle-market lending service is one of the products that sits in our institutional pipeline, but has been a very large success within our private wealth business. Similarly, Global Research Insights, which is a concentrated equity service that has been part of our targeted services, also is sitting today in our institutional pipeline.

So there is considerable opportunity both in terms of some of our equity services as well as our alternative suite of products to extend the success that we are seeing in targeted services into the institutional world.

Robert Lee - *Keefe, Bruyette, & Woods, Inc. - Analyst*

Great. And then maybe as a follow-up; I'm just curious. Obviously, Seth, when you came onboard, there were a lot of governance changes with the Board. And obviously, Axa has talked about spinning out their US business with you as, I guess, part of that.

I'm just curious from your perspective: is that having or as Axa US marches toward its eventual IPO, I assume sometime next year, how is that do you think impacting or not AB in terms of maybe some of the strategic initiatives you are undertaking and maybe the speed at which they are being undertaken? Maybe it's making you do them sooner versus later. I'm just trying to get a sense of how that may be impacting some of the strategic decision-making.

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

Thanks, Rob. I think that what we've tried to do as a general principle is to focus the Firm on its day-to-day business. And the obligations arising from what Axa is doing -- and as you know, we are in a quiet period, so we are not at liberty to disclose much information in that regard, other than what Axa has itself disclosed.

But internally, we've limited the people involved to those who have to be involved for prospective planning and coordination on the finance side, on the strategy side, and so forth, as you might imagine.

When we talk about our own initiatives internally, everything we have done and we talked about, including our location strategy, was in the works here and had nothing to do with Axa and its own agenda.

What we do know, and I think it's just worth reinforcing, is that Axa intends to remain a very significant user of our services. They will continue to provide the seed, which has been a really important contributor to the future of this Firm, given how many of these new services that have been developed over the last five to seven years, have been now begun, as the first part of your question were alluding to whether it was in alternatives or in equities. So we don't anticipate that relationship to change.

But on balance, the initiatives that we are taking, I think it's fair to say all of them have been internally generated by the management team against our own priorities rather than those that Axa has focused on. I mean, it is worth noting that Axa is very supportive of those and has been apprised of everything we are doing. But on balance, everything that has been done here has really been generated internally.

Robert Lee - *Keefe, Bruyette, & Woods, Inc. - Analyst*

Great. I appreciate the color.

Operator

Alex Blostein, Goldman Sachs.

Ryan Bailey - *Goldman Sachs - Analyst*

Good morning. This is Ryan Bailey filling in on Alex's behalf. Thank you for taking our questions. So I guess first of all, I was wondering -- I appreciate the color on the expense savings from the flow consolidation at the New York City office.

I was wondering if you could expand on whether there is some further opportunities there. And I think there were a couple of media articles that suggested that you might be looking to relocate employees out of New York.

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

Yes, let me start, but I think John might add to that or Jim. We have disclosed to our people internally that we've been looking at our location strategy for a while. It's no secret that after compensation, occupancy has been I think our largest single expense.

I'd also say, and I think quite importantly, it's our conviction that in the future, larger firms are going to source talent where we think there are deep pools of that talent to seek or to obtain. And as this industry changes, investment talent is not the only talent we are looking for, whether it's technology, in operations and marketing and sales.

And so I think you will find it is the case and will be increasingly the case that firms are less centralized in their operations, given what technology allows us to do going forward, than they have been today.

I think something like 55% of our total employees are in the New York metropolitan area. New York will always remain a principal location for us. It's part of our DNA, as someone said to me. I think that's absolutely right.

But we are looking at other locations outside the New York metropolitan area. We haven't decided what groups would move. We haven't finalized on a location, and consequently, we don't really have anything to provide you with regard to additional color, including the timing of that transition.

But we are absolutely looking at it and it could have a meaningful impact on improving our expenses over time. But it's early days. We just wanted to share with our people internally what we were thinking about.

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

I would just add a couple things. One is, as Seth noted, occupancy is a big cost for us. As you noted, we are taking and have taken a whole series of steps to try and optimize the space that we use. The way we have the space configured today is not the way we would if we could clean sheet it, configure that space from a work standpoint.

So there are steps that we've taken, as you noted, in New York. But there are also steps that we have taken in other parts of the world. Our Hong Kong office just moved into new space in the past couple of weeks. Our Boston office was just reconfigured. Our Tokyo office has been recently downsized.

So there is a series of actions that we have taken and we will continue to take going forward around the world to both optimize our work environment, create a better work experience for our people, as well as hopefully over time bring our occupancy expense down.

Ryan Bailey - *Goldman Sachs - Analyst*

Got it. Thank you. Then I guess just a follow-up on the FlexFee's questions. I was wondering what the feedback has been like from portfolio managers and analysts. Are they expecting that they will have to change their investment thought process at all in response to the new structures? Any color there would be great.

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

Yes, before we launched this, there was considerable work done, both on the product design and give-and-take from the portfolio teams. We don't anticipate for the services, the six services that we have identified any changes in the way that we are managing those portfolios.

I think part of the appeal is to give distributors an analog to what they are familiar with and comfortable with today. So we really consciously designed it in a way that we were giving our distributor clients a choice.

Ryan Bailey - *Goldman Sachs - Analyst*

Got it. Thank you very much.

Operator

Craig Siegenthaler, Credit Suisse.

Craig Siegenthaler - *Credit Suisse - Analyst*

Just starting on expenses. So given that changes have already been made to the Boston, Tokyo, New York, Hong Kong offices, are there still sizable expense redundancies remaining over the next few years? Or are they very marginal at this point?

John Weisenseel - *AllianceBernstein L.P. - CFO and SVP*

I would say at this point, Craig -- it's John -- those are marginal. Again, back to Seth and Jim's comments, though, we do have 55% or so of our employees in New York City. And New York City is expensive real estate.

So as we look for a new location, obviously that is part of the analysis. But again, way too early. We don't know where, when, who would go, or anything of that nature.

Craig Siegenthaler - *Credit Suisse - Analyst*

Got it. And then just as my follow-up, recently there have been more AB funds added to the major US financial supermarkets, like Schwab and Fidelity. Can you just provide us an update on that front and how those funds are doing in terms of flows?

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

You know, Craig, I don't have anything in front of me that would tell me specifically on those platforms how those funds are performing. What I can tell you is that as reflected in this quarter's flows is that our flows -- our aggregate flows in U.s. Retail were quite strong in the quarter. That is momentum that has continued to build over the course of the year.

So if I look at the type of business that we are doing in the RIA space, that is also up significantly year on year, which would suggest that your observation is a good one. But I don't have those numbers in front of me. I'm sure John can get back to you.

John Weisenseel - *AllianceBernstein L.P. - CFO and SVP*

Yes, we will do that.

Craig Siegenthaler - *Credit Suisse - Analyst*

All right. Thanks for taking my questions.

Operator

Bill Katz, Citi.

Bill Katz - *Citigroup - Analyst*

Okay, thanks so much. Just coming back for the margin discussion one more time. So as you think through the synergies from the residual occupancy moves you've already made plus what you might be able to do in terms of relocating, how does that play into your incremental margin outlook as you look out, assuming that the revenue continued to build at a reasonable clip?

John Weisenseel - *AllianceBernstein L.P. - CFO and SVP*

Sure. Bill, it's John. So again, going back currently, based on what we currently know, if revenues continue to rise, we would be looking at an incremental margin somewhere in the range of 40% to 45% when you strip out nonrecurring items. Perhaps maybe a little bit higher than -- more towards the 45% level.

But again, I think longer term, we'd have to come back and revisit this once we finalize or get more information in terms of what our longer-term plans are on the occupancy side. But again, we are still very much in the early stages now, just on the investigation side.

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

Can I just clarify one question to you? The statement you just made, is that assuming the future move or not assuming?

John Weisenseel - *AllianceBernstein L.P. - CFO and SVP*

No, not assuming a future move.

Bill Katz - *Citigroup - Analyst*

Okay, perfect. Thank you very much for taking the extra question.

Operator

Robert Lee, KBW.

Robert Lee - *Keefe, Bruyette, & Woods, Inc. - Analyst*

Great, thanks for taking my follow-up. I guess I'm curious, and you kind of hinted at it or talked about it somewhat in terms of the fee structure in a lot of your pipeline. But do you have kind of the net revenue contribution of what flows are -- were this quarter or year to date?

And particularly as you get to next year and you introduce the FlexFee more broadly? I mean, that kind of mix could be increasingly important. So maybe just trying to get some color about how the contribution of flows has been contributing to revenues and trying to quantify that in some way?

John Weisenseel - *AllianceBernstein L.P. - CFO and SVP*

Rob, it's John. We typically do not specify the actual revenue coming from a particular quarter's flows. But I will tell you, though, that the past two quarters have definitely been among the strongest contributions we've seen in recent quarters as far as the flows to revenue. And the reason for that is a lot of these flows are very centered in terms of retail and a lot of them in terms of the higher fee retail high-yield products.

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

I would just -- look, factually, our average fee rate is up about a basis point from where we were a year ago. And as John said, that is a combination of both the flows as well as the mix across channels.

On a go-forward basis, if we are successful in what we are endeavoring to do from building out our alternative suite as well as continuing to grow our footprint in retail, that's not an unreasonable expectation in terms of continued enhancement in the overall mix of the Company.

Robert Lee - *Keefe, Bruyette, & Woods, Inc. - Analyst*

Great. And if I could, just maybe one follow-up I'm curious about. I don't know if you have done this work, but if you were to look at some of your FlexFee funds and maybe map them across to maybe an existing traditional fund, and if you had applied the FlexFee structure to those funds and their out-performance, I mean, do you have a sense of if it would have been neutral to revenues, better, worse? Just trying to get a sense if we looked at it going back how you think the impact would have been.

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

As you can imagine, we have looked at that. I don't think -- if we were to have had FlexFees in place, back to the comment that John made earlier, I don't think it would've had a material impact on our results that we have reported.

John Weisenseel - *AllianceBernstein L.P. - CFO and SVP*

Yes, it's John, Robert. I just wanted to reemphasize, too. Again, as you started to think about 2018, because I'm sure folks will start to do that probably sooner rather than later. Again, I wouldn't really focus too much on the impact of this in 2018. Because, again, this is a longer-term venture here. We have to see how these products ramp up and it is going to take quite some time for us to I think to see that.

Robert Lee - *Keefe, Bruyette, & Woods, Inc. - Analyst*

Great, thanks for taking my follow-ups.

Operator

(Operator Instructions) Michael Carrier, Bank of America.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Thanks, guys. Just one on MiFID II. I think you mentioned some -- the potential, maybe market share gains on the sell side business. I guess also on the buy side part of the business, how are you guys thinking of navigating this regulation, whether it's over in Europe or globally, over 2018, 2019, over the coming years?

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

Like many of our competitors, we are going to be absorbing the research costs related to the research consumed in Europe for services that fall within MiFID II. And we will do that as it becomes effective next year.

We don't think the amounts involved there are material from a cost perspective to the Firm. It's certainly conceivable that -- and I'm speculating here -- that we're going to have to continue to be looking at this for a long time, because it's possible it comes back to the US. And so we need to think about it and respond proactively at that time.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Okay, thanks a lot.

Operator

There are no further questions at this time. I'd now like to turn the call back over to the presenters.

Andrea Prochniak - *AllianceBernstein L.P. - SVP and Head of IR and Corporate Communications*

Thank you, everyone, for participating in our conference call today. Feel free to follow up with investor relations with any further questions you might have. Have a great day.
