

CEO INTERVIEW

AllianceBernstein CEO Sees Strength in Its Private Wealth Business

By Andrew Bary

AllianceBernstein Holding's low-profile private wealth management business is one of the asset manager's most valuable units and operates differently from those at firms like Morgan Stanley and JP-Morgan Chase.

The private wealth business, which had \$110 billion of assets under management at the end of the first quarter, increasingly caters to what the Alliance Bernstein describes as "ultra-high-net worth" clients and uses a significant amount of proprietary financial products including alternatives with clients generally giving their financial advisors considerable discretion in making investments.

This differs from most wealth managers who tend to steer clients toward what they view as best-of-breed managers outside their firms.

AllianceBernstein units (ticker: AB) have appreciated strongly in the past year, gaining 72%, to \$46.29, besting the shares of industry leader BlackRock (BLK) and T. Rowe Price Group (TROW).

AllianceBernstein, which is structured as a partnership, pays out all its earnings in distributions (the partnership equivalent of a div-

AllianceBernstein Holding L.P.



Source: FactSet

idend), resulting in a current yield of about 7%. Barron's wrote favorably on the company last fall, when the shares traded around \$30.

"It's our original business," AllianceBernstein Seth Bernstein CEO says of the private wealth division. "It's at the center of what we do. We are money managers and not a broker or banker."

"As a consequence of that, all we do is discretionary money management," he tells Barron's. "What we think differentiates us is less the management itself as the wealth planning that we spend an inordinate time thinking about."

The business accounts for around 15% of the firm's assets under management and 32% of its annualized fees. About 45% of private-wealth clients are invested the firm's alternative assets such as hedge funds.

The firm's earnings rose to 81 cents per unit in the first quarter from 64 cents in the period a year ago. Analysts see \$3.41 per unit in 2021 earnings, up 17% from 2020, and 9% growth next year to \$3.73 a unit, according to FactSet. The units trade for about 13 times estimated 2021 earnings. As a partnership, AllianceBernstein pays a low federal tax rate of under 10%, a plus given potentially higher corporate taxes. Adjusted margins rose to 31.7% in the first quarter from 27.6% a year earlier.

"We typically manage in separate accounts and not mutual funds and it allows us to be very thoughtful on tax planning. You can't do that with mutual funds, and it can be tricky with ETFs," Bernstein says.

"We don't charge two levels of fees like everyone else. It's a single level of fees. When you go to JP-Morgan or Morgan Stanley, they're finding third-party managers to run your money and so you're paying that fee plus paying Morgan Stanley

a fee to manage the overall portfolio. Our portfolios tend to be less diversified so our ability to outperform or underperform consequently is higher.”

Bernstein says the result is a “much more thoughtful and tax-efficient portfolio.”

The firm is a believer in active management and seeks to offer what Bernstein describes as “world-class strategies” to achieve client goals. The client base is more akin to UBS or JPMorgan’s private bank than to Morgan Stanley or Bank of America’s Merrill unit, Bernstein says, but he declined to provide average client asset size.

The private-wealth business had \$1.7 billion of net client inflows in the first quarter, but flows were negative in 2020. Bernstein says inflows have averaged 1% to 2% in recent years. The flows are “slower

than I hoped” and reflects that “people delegating money is growing at a much slower rate than people doing it themselves.”

Alliance Bernstein, which had \$731 billion of assets under management at the end of May, has had better flows than many active managers with \$6.5 billion of net actively managed inflows in the first quarter. Over the past three years, net inflows to active strategies have averaged 2.2% annually and double that rate in higher-margin active equities.

The company is 64% owned by Equitable Holdings (EQH), the insurer, with 36% held by the public, including a sizable chunk owned by directors, management, and employees.

Earnings drivers for Alliance Bernstein include a stronger stock market and a shift toward higher-fee

assets, as well as the company’s headquarters move to Nashville from Manhattan.

The firm has about 800 employees in Nashville, with a goal of nearly a third of its more than 3,900 total employees. The move is intended to save \$75 million to \$80 million annually starting in 2025 after the lease expires on the company’s Manhattan headquarters offices in Midtown.

Bernstein says he plans to roughly split his time between Nashville and New York. Alliance-Bernstein’s New York-based investment teams didn’t have to make the move, but Bernstein says many are starting to “raise their hands” and showing an interest in relocating. He envisions the average employee working three days a week in the office with differences depending on the job.