AllianceBernstein

Management takeaways – Adapting to a brave new world for active management

Maintain Rating: BUY | PO: 25.00 USD | Price: 22.95 USD

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We met with AB's CEO, Peter Kraus – maintain Buy

We recently met with AB's CEO, Peter Kraus, and despite some industry headwinds, he views the outlook for AB as relatively attractive given strong investment performance & a fairly diversified product offering. Overall, based on healthy investment performance, relatively attractive organic growth, opportunity for operating leverage, and an attractive yield (8-9%), we continue to like the risk/reward and maintain our Buy rating.

New performance fee funds – a disruptor to passive?

Mr. Kraus views the growth in passive investing as a disruptor and wake-up call for the active industry. He thinks until active starts outperforming and becoming more innovative (new pricing/products & capacity caps), the industry contraction will continue given excess capacity. On that note, AB recently announced an active performance fee fund series that would only charge 10-20 bps (very competitive with passive), as well as a performance fee only if the fund outperforms the benchmark. While there are pros and cons with this fee structure, which we discuss in the note, it is very competitive and gathering traction.

DOL & MiFID II – more change for the industry?

Despite the DOL Fiduciary rule delay, Mr. Kraus expects a rule/modified rule to eventually be adopted, which will continue to focus on a fiduciary standard, but some areas could be eased (operational, the BIC, and DOL/SEC harmonization), though legal risk could remain. In terms of MiFID II and unbundling, Mr. Kraus sees some risk to the revenue wallet (buffet vs. a la carte), tails of the sell side, and Europe, but expects top tier platforms, like Bernstein, to gain share and be relative winners. Importantly, as it pertains to the buy side, he thinks it's the worst time to cut back on alpha tools and doesn't expect many U.S. or Global firms to adopt a flawed European rule outside the jurisdiction, including AB.

AB – relatively well positioned for growth & a ~8% yield

Given strong investment performance, a more diversified and non-traditional line-up of new products (performance fee, concentrated, low-volatility, multi-asset, unconstrained, alternative, etc.), and distribution traction, the building blocks for healthy relative organic growth (goal to exceed the industry over time, or ~3%) are in place at AB. In addition, given that the platform is positioned to generate 50-60%+ incremental operating margins (vs. ~25% currently), we believe the firm is well positioned to generate healthy EPS growth and an attractive yield (~8-9%) in a backdrop with a modest market tailwind. We like the risk / reward at AB and maintain our Buy rating.

Stock Data

Price	22.95 USD
Price Objective	25.00 USD
Date Established	12-Apr-2017
Investment Opinion	B-1-7
52-Week Range	20.75 USD -25.13 USD
Mrkt Val / Shares Out (mn)	2,218 USD / 96.7
Average Daily Value	7.92 USD
BofAML Ticker / Exchange	AB / NYS
Bloomberg / Reuters	AB US / AB.N
ROE (2017E)	4.3%

Estimates (Dec)

(US$)	2015A	2016A	2017E	2018E	2019
EPS	1.84	1.89	1.97	2.10	NA
GAAP EPS	1.86	2.23	2.05	2.16	NA
EPS Change (YoY)	-1.1%	2.7%	4.2%	6.6%	NA
Consensus EPS (Bloomberg)			1.97	2.11	2.20
DPS	1.84	1.92	1.97	2.09	NA

Valuation (Dec)

	2015A	2016A	2017E	2018E	2019
P/E	12.5x	12.1x	11.6x	10.9x	NA
GAAP P/E	12.3x	10.3x	11.2x	10.6x	NA
Dividend Yield	8.0%	8.4%	8.6%	9.1%	NA

Refer to important disclosures on page 11 to 13. Analyst Certification on page 9. Price Objective Basis/Risk on page 9.

iQprofile℠ AllianceBernstein

Company Sector

Asset Management

Company Description

AllianceBernstein (AB) is among the most diversified managers with assets in mutual funds, sep. accounts and high net worth (HNW) investments. AB is majority-owned by AXA Financial, and as a Master Limited Partnership (MLP), distributes its available cash flow quarterly and enjoys low tax rates.

Investment Rationale

We expect AllianceBernstein to outperform the group given our outlook for above average growth with strong investment performance and an AUM mix relatively shielded from the passive threat, i.e. away from US equities. Additionally, AB's trades at a discount to its peers as well as its historical multiple and boasts a robust yield of 8%+. Risks to our rating are market corrections, negative flows, and worse investment performance.

Income Statement Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019
Total Revenue	3,021	3,029	3,121	3,270	NA
% Change	0.5%	0.3%	3.1%	4.8%	NA
Investment Advisory Fees	NA	NA	NA	NA	NA
Compensation & Benefits	1,268	1,230	1,327	1,404	NA
% Change	0.2%	-3.0%	7.9%	5.8%	NA
Non-Compensation Expenses	(3,658)	(3,535)	(3,759)	(3,933)	NA
Net Income to Ordinary Shareholders	187	217	197	212	NA
Adjusted Net Income (Operating)	185	184	189	206	NA
% Change	1.6%	-0.7%	3.0%	8.9%	NA
Adjusted EBITDA (Operating)	697	697	750	810	NA
Cash EPS	100.51	97.39	96.15	98.34	NA
% Change	2.6%	-3.1%	-1.3%	2.3%	NA

Performance Metrics (Dec)

	2015A	2016A	2017E	2018E	2019
Operating Margin	20.9%	23.9%	22.1%	22.7%	NA
Pre-Tax Profit Margin	20.9%	23.9%	22.1%	22.7%	NA
Net Profit Margin	6.1%	6.1%	6.1%	6.3%	NA
Comp Expense/Revenue	-42.0%	-40.6%	-42.5%	-42.9%	NA
Non-Comp Expense / Revenue	121.1%	116.7%	120.4%	120.3%	NA
Net Revenue Growth	0.5%	0.3%	3.1%	4.8%	NA
Operating Expense Growth	-0.3%	-3.5%	5.4%	4.0%	NA

Asset Management Data (Dec)

	2015A	2016A	2017E	2018E	2019
Assets Under Management ($bn)	99.7	96.6	96.4	98.6	NA
% Change	2.0%	-3.1%	-0.2%	2.3%	NA
% Equity	46.3%	44.0%	44.1%	43.3%	NA
% Fixed Income	53.7%	56.0%	55.9%	56.7%	NA
% Money Mkt / Other	0%	0%	0%	0%	NA
Net New Flows ($bn)	3.3	-9.7	6.5	7.6	NA
Organic Growth	0.7%	-2.1%	1.3%	1.5%	NA
Organic Growth ex-Money Market	0.7%	-2.1%	1.3%	1.5%	NA
Advisory Fees / Avg. AUM	23.065%	22.997%	24.031%	24.763%	NA

Balance Sheet Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019
Total Assets	7,436	8,740	8,628	8,515	NA
Total Shareholders' Equity	4,044	4,425	4,312	4,200	NA
Tangible Shareholders' Equity	NA	NA	NA	NA	NA
BVPS (Stated Equity)	NA	NA	NA	NA	NA
ROE (Stated Equity)	4.5%	4.3%	4.3%	4.8%	NA
Cash & Investments	620	725	612	499	NA
Net Cash & Investments Per Share	NA	NA	NA	NA	NA

Quarterly Earnings Estimates

	2016	2017
Q1	0.39A	0.44E
Q2	0.39A	0.46E
Q3	0.45A	0.48E
Q4	0.67A	0.59E

Overview

We recently met with AB's CEO, Peter Kraus, and despite some industry headwinds (passive taking share from active, active underperformance, and more regulations on the horizon), he views the outlook for AB as relatively attractive given strong investment performance and a fairly diversified product offering. Given this positioning, as well as further opportunity for margin improvement, Mr. Kraus is optimistic on the relative growth outlook for the firm, though had some interesting perspectives on the industry as a whole (particularly given passive pressures, active underperformance, regulation, and their new performance fee funds). Given AB's healthy investment performance, relatively attractive organic growth, opportunity for operating leverage, and an attractive yield (about 8-9%), we continue to like the risk/reward and maintain our Buy rating.

Passive – disruptor to the active industry

Mr. Kraus views the growth in passive investing as a disruptor and wake-up call for the active industry. He thinks until active managers start outperforming and the industry gets a bit more innovative on multiple fronts, the trend is likely to continue. He sees a few areas of challenges for the industry and potential innovative opportunities. Despite the headwinds, he thinks those that are willing to embrace the change and be innovative have an opportunity to grow, while those that do not, will shrink in the years to come.

Too many active managers / too much capacity

Mr. Kraus sees an industry that has become too large with too many average or undifferentiated managers (traditional and alternative). He expects those in the active industry that cannot innovate or differentiate to contract until the industry starts to outperform. He thinks some sub-sectors of the industry could look like the cash equities business over the past decade or so, where the industry saw significant pressure over time particularly for those that didn't innovate.

Capacity constraints / focus on performance

Mr. Kraus views fund size as a key issue for many firms in the industry, and one of AB's issues when he joined the firm. Firms typically start out with a small fund with good performance and if the performance is sustained, then the flows follow. However, most firms in the industry do not do a good job at capping the capacity, and as the fund gets larger and larger, it tends to be a benchmark performer – more of an incentive to avoid mistakes vs. to outperform. In a backdrop of passive investing, this strategy no longer works as it did in the past.

Industry needs more innovation / willingness to change

Given the increasing competition from passive investing, Mr. Kraus sees the need for the industry to become more innovative (asset managers, wealth managers, investors, distributors, and regulators). On the product front, he thinks the industry needs to create products that can differentiate from passive strategies; otherwise passive will likely continue to gain market share. However, Mr. Kraus also sees the adoption of new strategies by consultants and some distribution channels as challenging, and would be helpful if that changed as well. In addition, he sees the mandate process creating a negative selection bias, given the intense focus on strong three to five year performance track records, which are bound to weaken. Finally, given the availability of information and the changing market structure and shorter investor timelines, there is a need for technology investments as well as longer investor timelines to create alpha.

Re-thinking fees for the industry

In order to better compete with passive strategies, Mr. Kraus thinks having a fee structure with a management fee more aligned with passive and incentive fees for performance would compete well. Basically, this structure would provide investors the opportunity to outperform versus passive products only having the option to underperform, and managers would focus more on performance versus asset gathering.

Performance fee funds – answer to the shrinking industry?

On the pricing front, AB recently announced the approval for a new performance fee series of funds. These 6 initial funds (Large Cap Growth, U.S. Thematic, Core Opportunities, International Strategic Core, Emerging Markets Growth, and International Bond) will be offered in the U.S. retail channel initially and will charge a fee of 10 to 20 bps (very competitive with passive) with a performance fee only if the fund outperforms its benchmark (not its peer group). This is very different than the current type of fulcrum performance fee funds in the industry, which typically charge an active management fee to start, then a performance fee of +/- roughly 15 bps if the fund out/under performs the benchmark. These six funds were chosen as they each were in high demand, in significant categories with strong performance, and AUM in excess of $1B in each fund.

Why introduce these fund types?

As noted above, Mr. Kraus has said that he views passive as a significant disruptor to the active industry, and for those in the active industry, the options are either to sit around and see the industry shrink or be innovative in offering products that are more competitive for investors – he's in the latter camp. In addition, to be fair, AB has less at risk than some others in the fund industry (given its relative asset size in fund areas that are being competed away by passive), so there is more interest in launching a new innovative fund structure to try to confront the challenges facing the industry.

How do the new funds work?

These new funds charge a base fee of 10 to 20 bps (lower for U.S. equity and higher for international and fixed income), and a performance/total fee that ranges between 50 – 85 bps if the fund outperforms the benchmark over the first hurdle (varies by fund, but 140 bps net for U.S. equity) and between 80 – 155 bps if the fund outperforms the benchmark over the second hurdle (280 bps net for U.S. equity), then the fee is capped at this level to deter excess risk taking. The base fee is charged during the year, while the performance fee is only charged at year end. Once these funds are launched, new money will only go into the new fund structures, while the legacy fund structures will not take on new investors.

Potential push back

We see two areas for potential push back. First, some could argue that it could incent risk taking. However, given that the upside in the performance fee is capped, we don't see that argument holding much weight. In addition, Mr. Kraus said the investment teams are still compensated on 1, 3, and 5 year performance, as well as on managing risk levels in the fund. Second, some could argue that it is too complex. While it is innovative, given daily pricing, liquidity, and fee transparency, we don't see the too complex argument, except for those that are maybe too complacent.

Attractive to investors

We see these funds as being attractive to investors on multiple fronts. First, investors now have an active fund option to compete with passive, by paying a very competitive passive fee, with a higher performance fee only kicking in if the fund outperforms the benchmark. Importantly, this gives investors the option to outperform vs. in a passive product only having the option to underperform. Second, the structure is a mutual fund, something that investors are familiar with, and pricing will be daily and transparent. Finally, AB is initially offering this pricing mechanism in large categories that are in demand, with the funds having good performance and material AUM.

Interesting to distributors

With distributors facing more decisions on which products to offer on their platforms, an intense focus on performance and fees, and regulation focusing attention on transparency and a fiduciary standard (regardless of whether the DOL is passed in some form or not), we view this new product as attractive. Distribution platforms can offer an active offering with very competitive fees to passive, with fees only increasing if the fund outperforms the benchmark. This provides clients the option to outperform, while it keeps fees competitive with passive in periods when the funds do not. Given that the funds do not have a distribution fee, this would likely be a product for the fee based or advisory type accounts. Mr. Kraus and the team have been working with the distribution platforms for some time and see a good level of interest.

A big decision for active managers

We expect most active managers will be hesitant at first to embrace this type of fee structure (and to be clear, a model where a manager gets about 65 bps whether they perform or not, is clearly a better model for the manager, versus one where they only get performance fees above the 10-20 bps if they outperform). That said, as Mr. Kraus noted, that model is no longer an option, as passive is taking share from those that have high fees and are not able to outperform. Active managers will increasingly need to make a tough decision to either hold on to their current fee structures and accept outflows or try to be more innovative to try to stop the outflows. To be fair, we don't think there will be one option. We think some managers will look at different fee structures, others may look to keep current fee structures but will look to launch products that are differentiated and tougher to be mimicked by passive, and others will shrink, consolidate, and/or eventually shut down.

AB says all are welcome – no exclusivity on the funds

Mr. Kraus was clear that this new fund fee structure is in no way exclusive to AB. He would like to see others in the industry adapt this type of fee structure, as he thinks having multiple asset managers and distribution platforms adopting this structure would be more powerful for take up and adoption, and ultimately could help the industry fight back against passive.

The pros and cons of growth versus increased volatility

While this fund fee structure is interesting and it could help in the competition with passive, for active managers, the fee structure is very different than the fees today and creates some challenges and a need to re-think the current model.

First, shifting to a performance fee structure places a major focus on performance and managing fund capacity, while dis-incentivizing average performance and asset gathering. While this could be a shift for some, Peter believes this is the direction the industry needs to go in order to bring performance and growth back.

Second, performance fees create more volatility in the revenue and earnings stream, which could weigh on the valuation multiple. However, on the flip side, positive flows and organic growth could lift the valuation multiple. To put this in perspective, traditional asset managers trade at a forward P/E multiple of roughly 13x vs. the historical average of 17x, given the lack of growth, while alternative asset managers trade at roughly 9.5x (~11x on cash earnings) given a high level of performance fees. That said, alternative managers get performance fees on alpha and beta, while these new fee structures are only on alpha, so it should be less volatile. In addition, when AB back tested this revenue model vs. the current model on the funds, it was immaterial to revenue (granted that doesn't mean the future couldn't be different). Bottom line, we think the downside from performance fee volatility would be offset by the upside from the return to growth, particularly for those that are able to generate alpha.

Third, with more revenue volatility, managing the cost structure would likely be more challenging. While this is likely true, as we mentioned before, Mr. Kraus thinks the old model is no longer an option, and cutting costs and headcount for the next decade as the industry shrinks isn't a good option either. Under this new pricing structure, Mr. Kraus also sees some ways to manage the volatility, including having different year ends for funds and having a very diversified fund line-up across products and distribution channels (could create the need for more consolidation in the industry).

Finally, given the headwinds the industry is facing, we have seen some consolidation and we expect to see more in the years ahead. In addition, we could potentially see some asset management firms become part of larger entities and/or go private given some of the public challenges.

ETFs versus Mutual Funds

While Mr. Kraus expects passive to continue to take market share from the active industry, he also sees some risks in passive investing. First, he is concerned with the liquidity perception in ETFs and the related costs which are not very transparent, particularly in fixed income. Second, as more assets are passively managed, the level of focus on holding companies accountable can continue to deteriorate – low fees and lack of capabilities to do proper due diligence could eventually weigh on returns. Third, Mr. Kraus sees no reason to re-create products to have intra-day liquidity (ETF shells for active funds, etc.), rather he thinks mutual funds should scrap the end of day redemption and have intra-day liquidity, though this would need SEC approval. Finally, he thinks ETFs should be held accountable in tracking taxes for holders, in the same way as mutual funds.

DOL delay – impact on the industry outlook

Mr. Kraus expects the DOL fiduciary rule to have an impact on the industry, despite the recent delay in the rule. Even with the delay, distributors have done some clean up on the product line-up and firms are more focused on transparency and fees versus the past. Peter expects some form of the Fiduciary rule to eventually pass, though the industry could see some operational ease, the BIC eliminated, and the DOL to potentially work with the SEC on the positive front, but could see legal risk remain.

MiFID II – outlook for research demand and market share

MiFID (Markets in Financial Instruments Directive) II is a wide ranging regulatory initiative in Europe that focuses on the trading environment and making the markets more efficient, resilient, and transparent since MiFID I. The area that is most impactful for AB and the industry is around unbundling in 2018, or separating out what a fund pays for research versus execution. With more focus on what is being spent on research, we expect some pressure on the amount paid out to the industry – this is the buffet vs. a la carte argument (when there is a flat fee, consumption can be high, but when one has to pay for what they consume, the level of consumption can decline).

However, as Mr. Kraus sees it, with many buy side firms still using 50-100 sell side providers, the list will likely shrink significantly, with Peter expecting most to be within 25-50 providers, or down about 50%. Given this reduction, he expects some firms to exit, some to consolidate, but firms that are leaders in trading and/or research, will likely be on the shorter list of providers and will gain market share. So while the amount paid out to the industry will likely decline some (potentially double digits), for those that are on the shorter list that the buy side continues to use, they could see revenues down less, flat, or even up in some cases.

Mr. Kraus sees Bernstein in this camp, and expects Bernstein Research revenue trends in the years ahead to be fairly stable, despite MiFID II. He actually thinks the bigger challenge for the sell side is the ongoing pressure facing the buy side (active to passive and challenging hedge fund performance).

Mr. Kraus thinks there are a few key points to focus on for the outlook to the industry and specific firms, both buy and sell side, which we agree. First, the final rule was more manageable than feared, as managers don't have to get client sign off on using research (that would have been an operational challenge). Second, there will likely be more pressure in Europe on both the sell and buy side. Third, there are other challenges within fixed income and between U.S. and European regulations that are still being worked out. Finally, Mr. Kraus does not expect many U.S. firms or Global firms to adapt this regulation globally, as many don't agree with the rationale, with AB in this camp, rather roping off Europe will be more likely.

Mr. Kraus explained that AB (the buy side) will continue to use the sell side as it has in the past, and given the pressures on active managers, he thinks this is the worst time for active managers to be focused on cutting costs in areas that help create alpha. As Peter put it, they charge a fee to their clients for a certain strategy, which can be discussed, and they provide clients with a high level of transparency on the fees, but they won't be told how to create their product. He used an example in manufacturing, just as GE charges a fee to a customer that wants an engine, the customer can't tell GE what type of metal or bolts are used, that is GE's call given their expertise. Bottom line, he thinks firms that don't use the research and tools necessary to generate their returns and instead focus on the incremental cost, will face increased pressure ahead.

AB – a turnaround positioned for growth ahead

Over the past eight years, management has repositioned AB with personnel, products, acquisitions, and even a new brand. Mr. Kraus shifted from a more defensive focus early on (people, costs, etc.) to a more offensive strategy more recently (a broader product offering, distribution, etc.), particularly as the investment performance has improved.

Today, the firm is well positioned across product categories in demand, including outcome oriented across equity, fixed income, multi-asset, and alternatives. In addition, performance in fixed income is solid and the more traditional equity categories have improved significantly, despite a tougher 2016, and are seeing better flow trends. Meanwhile, the firm has begun making inroads on retail distribution platforms (U.S. and Europe) and with institutions (notably in Europe). Thus, the building blocks for healthy relative organic growth are in place, and management expects to deliver organic growth above the industry average, with a target of 3% over time.

Organic growth to be driven by differentiation and performance

The team has diversified the product offering over the past few years and some of the newer products are nearing or have a three year track record, which should aid flows ahead. In the equity space, management sees opportunities in areas that can differentiate from passive strategies, including concentrated equities, low volatility strategies, and PE disruption strategies.

In the fixed income area, the team is focused on multi asset and unconstrained strategies, the private credit platform (illiquidity opportunities versus a potential liquidity bubble), and the recent conversion of the American Income closed end fund into an open end fund. Importantly, AB is more of a credit firm vs. a rate firm, so rising rates are not a big headwind, but deteriorating credit would be more of a challenge. In addition, rising rates/yields could create more demand, particularly relative to dividend equities with more volatility.

On the alternative front, management has focused on products including long/short strategies, fund of funds, and other alternative areas. Importantly, Mr. Kraus sees opportunities with the recent Ramius deal to offer a low cost replicable Hedge Fund like product, in addition to other strategies. Management is comfortable with the product line-up at this point, and sees the most opportunity in increasing scale in the current products.

In terms of distribution, AB sees the most growth potential in the retail channels (U.S. and Europe), continued growth in its Private Wealth channel (given more solution based products), some opportunities in the retirement market (with the multi-manager target date series with Morningstar and the CRS strategy), and institutional opportunities in Europe (particularly in the insurance channel).

Revenue growth to drive operating leverage and EPS growth

Given decent revenue growth and an improving outlook, AB's cost structure should provide further operating leverage, with an incremental margin of 50-60%+. Improving organic growth and greater scale in key funds (particularly as retail funds approach the $5B threshold) should enable AB's margin to rise toward the industry average (currently

~25% vs. about 35%). Having completed organizational changes and real estate rationalization in recent years, management is now seeking to drive margin improvement via revenue growth with modest investment or expense growth. While improving the margin is important, the main focus over time for the management team is on delivering double digit EPS growth.

Cash use, healthy yield, and tax reform

Management doesn't see any change to the corporate structure and expects to continue to pay out its cash flow in a distribution, generating an attractive yield. AB will continue to pursue small M&A where it makes sense, with large M&A less likely, particularly given the challenges with deals. While tax reform will be monitored, management doesn't expect changes to be material enough to make it attractive to change AB's structure.

Maintain Buy given positive outlook, yield, & valuation

Given AB's strong investment performance, a healthy relative organic growth outlook, significant operating leverage potential, and an attractive valuation and yield of about 8-9%, we continue to like the risk/reward in AB and maintain our Buy rating.

Price objective basis & risk

AllianceBernstein (AB)

Our $25 price objective is based on 12x target P/E on our '18E, a discount vs our target for the asset managers given its less liquid MLP structure. Upside/downside risks to our price objective are market appreciation/depreciation, similar to other asset managers, underperformance, and an unpredictable yield since it is based on earnings rather than fixed.

Analyst Certification

I, Michael Carrier, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Affiliated Mgrs.	AMG	AMG US	Michael Carrier, CFA
	AllianceBernstein	AB	AB US	Michael Carrier, CFA
	Apollo Global Management	APO	APO US	Michael Carrier, CFA
	Ares Management	ARES	ARES US	Michael Carrier, CFA
	BlackRock, Inc.	BLK	BLK US	Michael Carrier, CFA
	CBOE Holdings	CBOE	CBOE US	Michael Carrier, CFA
	Charles Schwab Corp.	SCHW	SCHW US	Michael Carrier, CFA
	CME Group	CME	CME US	Michael Carrier, CFA
	Evercore Group	EVR	EVR US	Michael Needham, CFA
	Franklin Resources	BEN	BEN US	Michael Carrier, CFA
	Goldman Sachs	GS	GS US	Michael Carrier, CFA
	Houlihan Lokey	HLI	HLI US	Michael Needham, CFA
	IntercontinentalExchange	ICE	ICE US	Michael Carrier, CFA
	Invesco	IVZ	IVZ US	Michael Carrier, CFA
	KKR & Co.	KKR	KKR US	Michael Carrier, CFA
	Moelis	MC	MC US	Michael Needham, CFA
	Morgan Stanley	MS	MS US	Michael Carrier, CFA
	Old Mutual Asset Management	OMAM	OMAM US	Michael Carrier, CFA
	TD Ameritrade	AMTD	AMTD US	Michael Carrier, CFA
	The Blackstone Group	BX	BX US	Michael Carrier, CFA
NEUTRAL				
	E*TRADE Financial	ETFC	ETFC US	Michael Carrier, CFA
	Eaton Vance	EV	EV US	Michael Carrier, CFA
	Janus Capital	JNS	JNS US	Michael Carrier, CFA
	Lazard	LAZ	LAZ US	Michael Needham, CFA
	Nasdaq Inc	NDAQ	NDAQ US	Michael Carrier, CFA
	Oaktree Capital Group	OAK	OAK US	Michael Carrier, CFA
	Och-Ziff	OZM	OZM US	Michael Carrier, CFA
	PJT Partners	PJT	PJT US	Michael Needham, CFA
	T. Rowe Price	TROW	TROW US	Michael Carrier, CFA
	The Carlyle Group	CG	CG US	Michael Carrier, CFA
UNDERPERFORM				
	Artisan Partners	APAM	APAM US	Michael Carrier, CFA
	Cohen & Steers	CNS	CNS US	Michael Carrier, CFA
	Federated Inv.	FII	FII US	Michael Carrier, CFA
	Greenhill & Co.	GHL	GHL US	Michael Needham, CFA
	Legg Mason	LM	LM US	Michael Carrier, CFA
	Virtus Investment Partners	VRTS	VRTS US	Michael Carrier, CFA
	Waddell & Reed	WDR	WDR US	Michael Carrier, CFA
	WisdomTree	WETF	WETF US	Michael Carrier, CFA

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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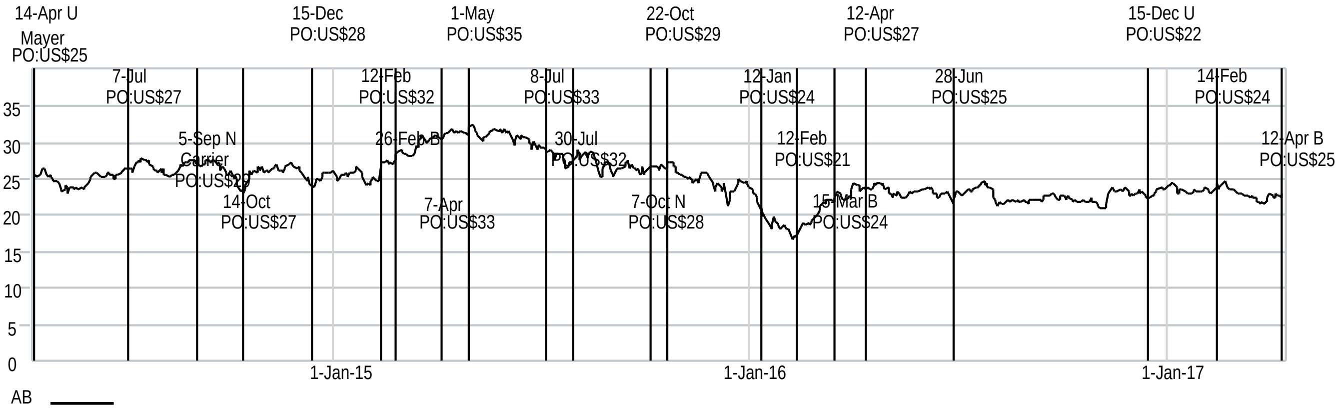

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Financial Services Group (as of 31 Mar 2017)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	118	47.77%	Buy	90	76.27%
Hold	61	24.70%	Hold	40	65.57%
Sell	68	27.53%	Sell	35	51.47%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2017)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1578	51.33%	Buy	979	62.04%
Hold	690	22.45%	Hold	434	62.90%
Sell	806	26.22%	Sell	381	47.27%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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