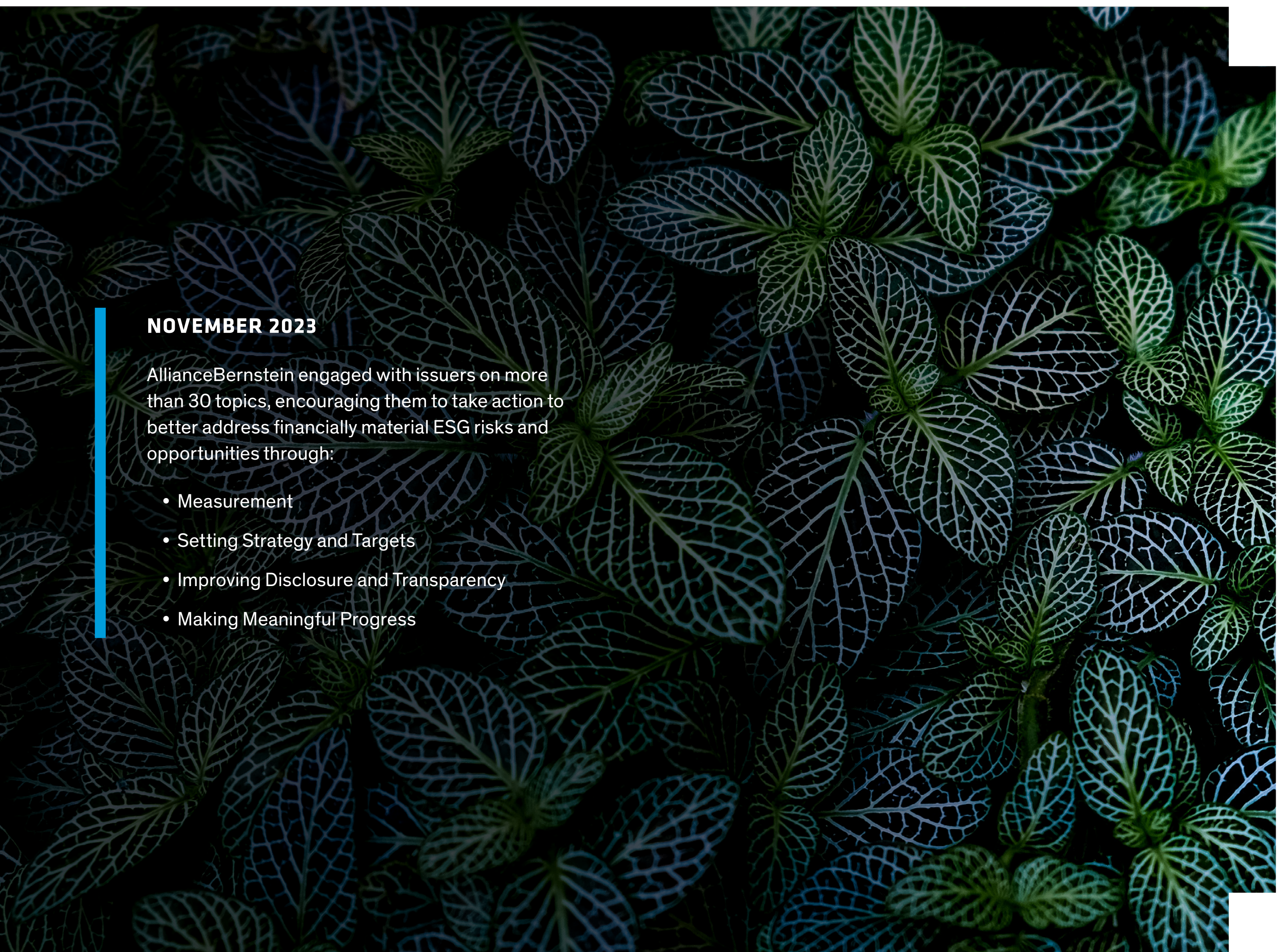
2022 ESG Engagement Report

Engaging for Action



NOVEMBER 2023

AllianceBernstein engaged with issuers on more than 30 topics, encouraging them to take action to better address financially material ESG risks and opportunities through:

- Measurement
- Setting Strategy and Targets
- Improving Disclosure and Transparency
- Making Meaningful Progress

A Word from Our Chief Responsibility Officer

AllianceBernstein (AB) believes that engaging with issuers can help create long-term value for our clients. We also believe that as active managers, our differentiated position can generate enhanced risk-adjusted returns through our ongoing access to, and engagement with, issuers.

The year-over-year progress from 2020 to 2021 inspired the focus of 2022: engaging for action. This focus entails encouraging issuers to improve their business activities and responsibility practices as a means to create shareholder value and reduce or limit credit risk.

In early 2022, we embarked on a journey to develop an action engagement framework. Simultaneously, we worked to enhance ESIGHT—AB"s ESG Research and Collaboration tool—by adding an “action engagement” template for investors. They are now able to tag their engagements as action, laying out the topic and which type of action they’re encouraging issuers to take. We also developed functionality to set milestones and end-date goals, including reminders for analysts to follow up with issuers. This development should help investors track year-over-year progress. Along with the launch of these enhancements, we commenced a coordinated effort to engage issuers on the most material risks that they face.

While we continued to follow up on topics from previous years’ engagements to monitor progress, we also decided to broaden the scope of our focus in 2022 to better understand which ESG factors may be the most material for different sectors.

In this report, we’ll share the advancements we’ve made in our engagement and stewardship practices over the years. I’m very proud of—and energized by—the collaborative efforts of AB’s investment teams and Responsibility team.

Erin Bigley, CFA
Chief Responsibility Officer

AB's Approach to Responsibility and Engagement

At AB, our responsibility approach is three-pronged: First, we strive to act responsibly as a firm. Second, ESG integration and engagement are fundamental to our responsible investment and research processes—we believe that integrating material ESG factors can enhance risk-adjusted returns. AB integrates material ESG factors in most of our actively managed strategies. And third, we're leveraging our expertise as a responsible investor to develop a suite of Portfolios with Purpose—our ESG-focused strategies.

Engagement is a key pillar of responsibility at AB. When our investment analysts engage with issuers, they speak directly with company management, board directors or other key officers, discussing material ESG issues facing an issuer. Discussions include what issuers have done about material ESG issues and what they might do going forward.

We engage for insight when our investment analysts seek to learn more from issuers about an ESG topic. But we also engage to share our ESG research assessment to encourage issuers to better address material ESG risks or take advantage of ESG opportunities, in our clients' best interests—engagement for action.

DISPLAY 1: AB'S APPROACH TO RESPONSIBILITY

*We integrate material ESG factors into most of AB's actively managed strategies. AB engages issuers where it believes the engagement is in the best financial interest of its clients.

Materiality of ESG Factors

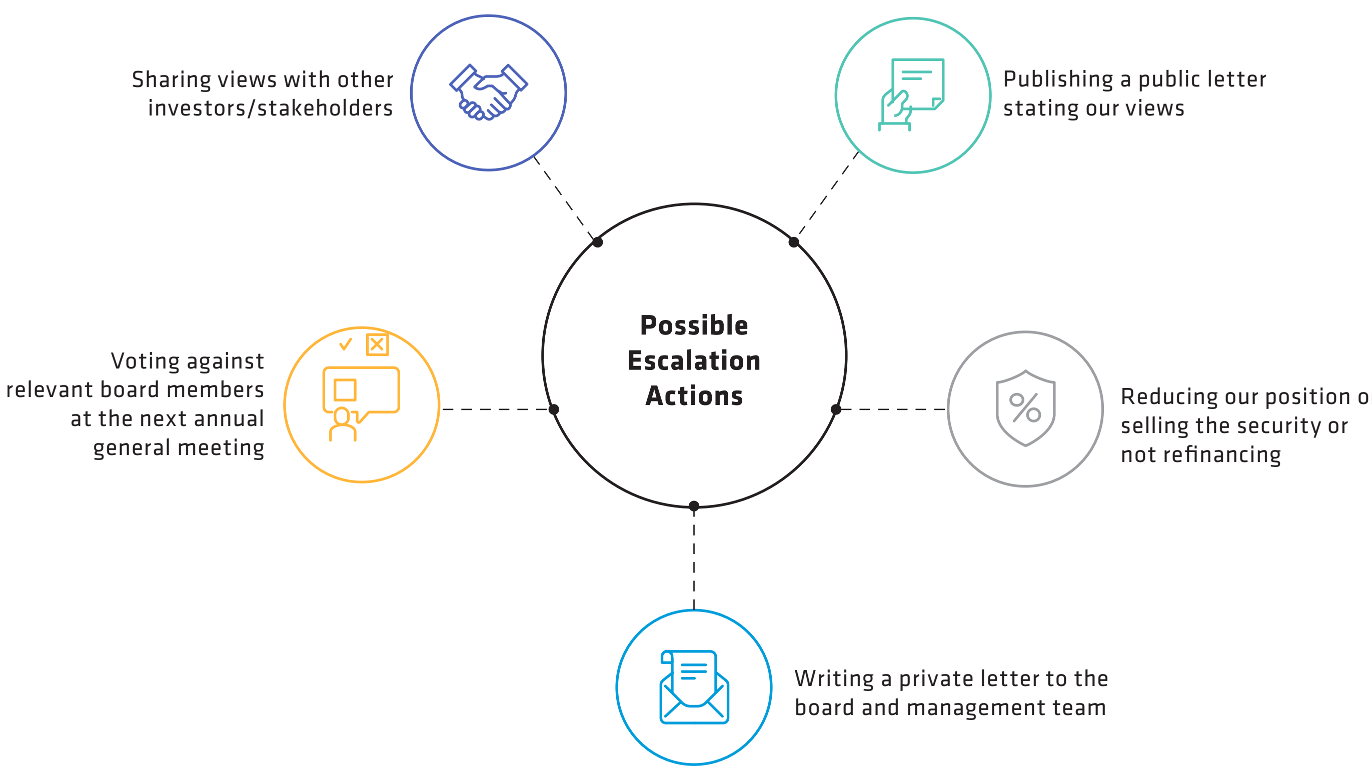
Investment teams work to identify and assess material ESG and climate risks and opportunities. Materiality differs by sector and industry. For example, how a company or issuer manages its water consumption and treats wastewater could present material ESG and financial risks for food and beverage companies. For financial firms, however, data and privacy concerns might take precedence.

Working with more than 120 AB analysts across asset classes, we've developed a proprietary materiality map that covers more than 40 ESG issues and spans almost 70 subsectors. We can apply the map to a range of ESG challenges, giving us valuable perspective on how the balance of shareholder and stakeholder interests will likely affect both our long-term financial forecasts and other stakeholder concerns. In our view, a consistent framework for incorporating material ESG factors into our financial forecasts helps us make better-informed investment decisions and ultimately can enable us to deliver better investment outcomes.

Holding Issuers Accountable

An important part of engaging for action is holding issuers accountable when they don't effectively manage financially material ESG risks and opportunities, in our view. If a multiyear engagement isn't fruitful, AB's Responsibility team may collaborate with our investment analysts to determine the most appropriate escalation method, including measures like writing a private letter to the board and management team, or sharing our views with other investors and stakeholders.

DISPLAY 2: AB'S ESCALATION APPROACH



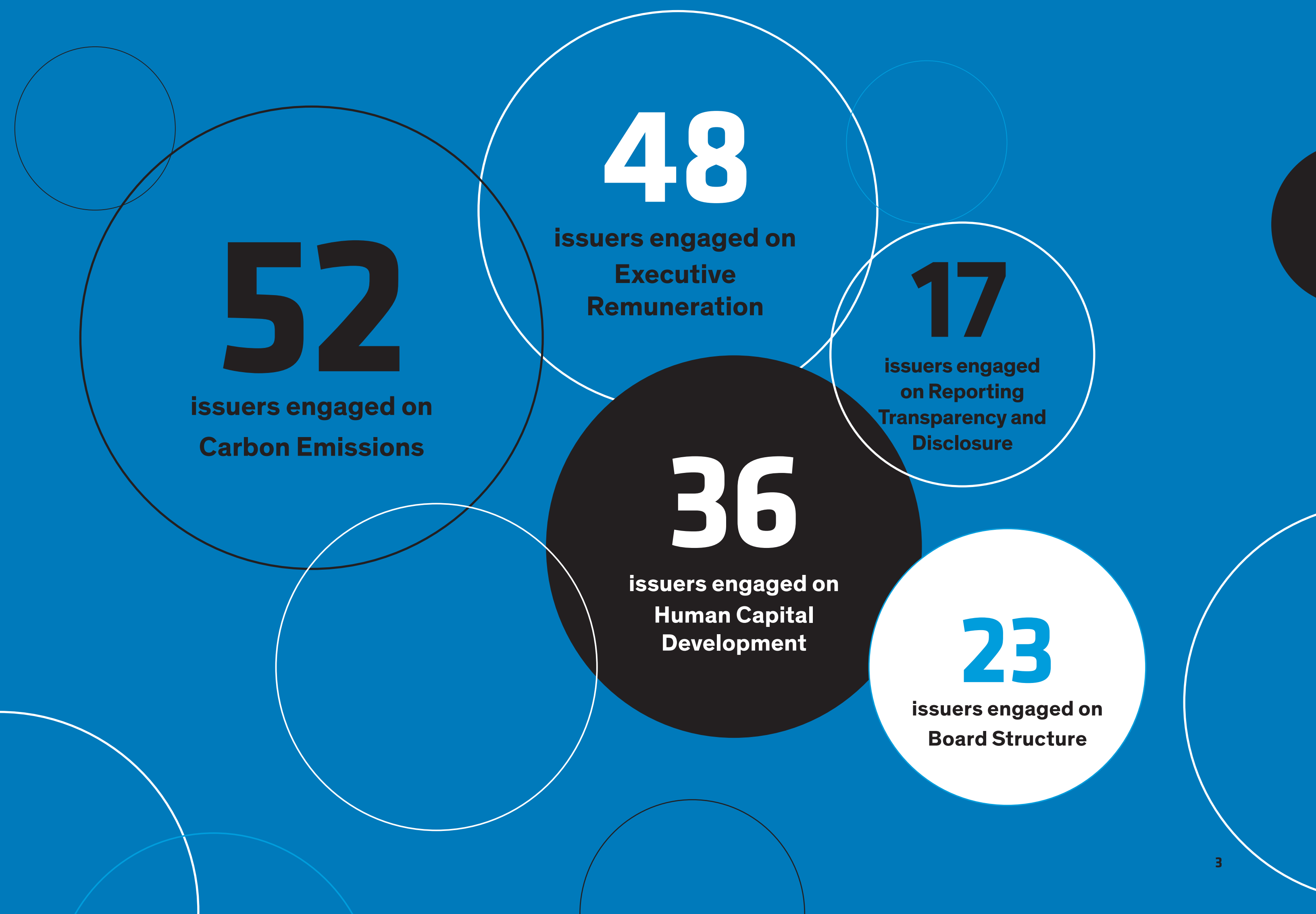
Engaging For Action in 2022

Overview

Upon the roll out of our action engagement framework, 101 of our investment analysts across 26 teams conducted 288 engagements with 219 unique issuers on 33 ESG topics. AB investment professionals worked to engage issuers on the most material ESG risks and opportunities they are facing. The ultimate goal is to help us better understand issuers, protect shareholders' and bondholders' interests, and encourage management teams to deploy strategies and take actions that we believe could drive better financial outcomes for our clients. In this report, we'll discuss the four action types, with examples from several topics that we believe were successful in encouraging corporate action to better manage material and opportunities (*Displays 3* and *4, page 6*). Success, in our view, is both the level of receptivity from issuers and the effectiveness of the engagement (e.g., what the issuers plans to do regarding the risk it's facing).

- Measurement
- Setting Strategy and Target
- Improving Disclosure and Transparency
- Making Meaningful Progress

DISPLAY 3: 2022 ENGAGEMENTS BY TOPIC



2
issuers engaged on Responsible Investment

8
issuers engaged on Biodiversity and Land Use

11
issuers engaged on Shareholder Rights

4
issuers engaged on Board Diversity

4
issuers engaged on Product Safety and Quality

6
issuers engaged on Board Independence

9
issuers engaged on Environmental Impact of Supply Chain

1
issuer engaged on Social Impact of Supply Chain

3
issuers engaged on Water Management

1
issuer engaged on Financial Product Safety

1
issuer engaged on Opportunities in Green Buildings

2
issuers engaged on Opportunities in Renewable Energy

1
issuer engaged on Opportunities in Clean Tech

1
issuer engaged on Opportunities in Healthcare

12
issuers engaged on Diversity, Equity and Inclusion

4
issuers engaged on Accounting

2
issuers engaged on Business Ethics

6
issuers engaged on Modern Slavery

3
issuers engaged on Product Carbon Footprint

6
issuers engaged on Privacy and Data

3
issuers engaged on Packaging Waste

2
issuers engaged on Special Meetings

2
issuers engaged on Climate Change Vulnerability

1
issuer engaged on Governance—Compliance and Ethics

1
issuer engaged on Opportunities in Nutrition and Healthier Products

1
issuer engaged on Organizational Culture

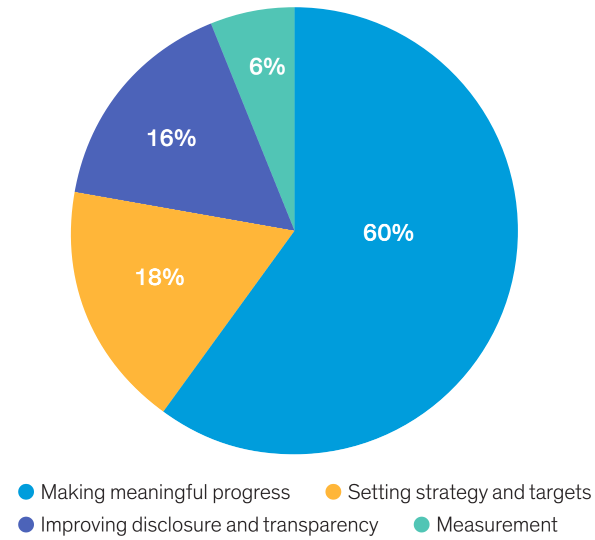
14
issuers engaged on Labor Management

1
issuer engaged on Toxic Emissions and Hazardous Waste

Source: AB

We engaged with issuers across action types (*Display 4*) and geographies (*Display 5*), as well as with a diverse group of company representatives, including CEOs, CFOs, board chairs, general counsels and ESG managers.

DISPLAY 4: 2022 ENGAGEMENTS BY ACTION TYPE



As of January 2023 | **Source:** AB

DISPLAY 5: 2022 ENGAGEMENTS BY REGION

Source: AB

What Does Action Mean?

Engagement helps us support our clients' interests by enabling us to share our ESG research assessment to facilitate better management of risks and opportunities from issuers. Discussion topics vary, but the goal is the same: striving to encourage management teams to deploy strategies and take actions that we believe can drive better financial outcomes for our clients.

At AB, we group action-oriented engagements into four distinct types:

Measurement

When we engage with an issuer on an ESG topic, we're often working to understand how it tracks and monitors risks and the effectiveness of the work it's doing. Being able to measure progress over time is important to determining how an issuer is improving in terms of managing material risks and opportunities.

Setting Strategy and Targets

Once an issuer has established an effective measurement system, we seek to learn how it thinks about tackling issues over the long term and promote the establishment of concrete goals and interim targets to meet those goals. We then check in with issuers as they pass these key milestones.

Improving Disclosure and Transparency

We strongly encourage issuers to provide timely and accurate disclosures on material issues. Though issuers may be tracking key ESG matters internally, it's important that they communicate progress to investors and other stakeholders in a clear and transparent way.

Making Meaningful Progress

At the end of the day, issuers need to achieve the goals they've set. We push issuers to display a sense of seriousness and make a good-faith effort to advance their progress on material ESG issues.

While these action steps can be approached linearly, one action type may influence another, or issuers may revisit certain actions after making progress on others. When engaging for action, regardless of the action type, we typically set a target end date and interim follow-up engagements, closely monitoring whether the action engagement is proceeding successfully or if we should consider escalating it.

How Does Action Look in Different Sectors?

In different sectors, the topic of focus may vary based on the materiality of underlying ESG issues, and some sectors may lag behind others on different types of action. One sector may lead the way for disclosure and transparency but lag behind other sectors in setting a strategy and targets to tackle a material issue.

An ESG-focused engagement is often coordinated by both our Responsibility team and the fundamental analyst covering the issuer. This partnership drives better-informed and coordinated engagements. Both ESG and sector expertise are important to an effective ESG engagement, making this a strong partnership, in our view.

In 2022, we engaged with issuers from 11 different sectors; within each sector, we engaged on many topics (*Display 6*). These material issues are informed by our proprietary materiality map, which covers more than 40 ESG issues and spans almost 70 subsectors.

DISPLAY 6: ENGAGEMENTS BY SECTOR

Count of Engagements

TECHNOLOGY	65
HEALTHCARE	61
INDUSTRIALS	38
CONSUMER DISCRETIONARY	33
FINANCIALS	30
CONSUMER STAPLES	17
MATERIALS	15
REAL ESTATE	10
ENERGY	9
COMMUNICATION SERVICES	6
UTILITIES	4

Partnering Across Equities and Fixed Income

When our equity researchers partner with our fixed-income analysts, we believe that it can drive better investment outcomes.

When appropriate, our equity analysts engaged in partnership with our fixed-income analysts to drive more meaningful outcomes for our clients. As shareholders, we have direct ownership of a company; we want to see it grow and create value. As bondholders, we lend money to companies in exchange for interest payments and principal repayments, and we engage with government officials, index providers and nongovernmental organizations, which determine policies that can affect how companies operate. As shareholders and bondholders, we explore risks that could affect cash-flow generation and enterprise value.

On environmental and social issues, equity and fixed-income analysts are generally aligned. These issues often affect companies holistically, posing meaningful upside and downside risks. Fixed-income investors might want to see companies boost operating or capital expenditures if it mitigates physical and transition risks and reduces the odds of negative tail-risk events. The financing of those expenditures is a key consideration, because it could compromise the balance sheet temporarily. However, stakeholders remain largely aligned in terms of how they'd like to see companies approach environmental and social issues.

On governance issues, there may be potential conflicts: shareholders could ask a company to take on risky projects that, if unsuccessful, could raise default risk. Shareholders may ask a company to pay large debt-funded dividends, which could weaken the company's balance sheet and liquidity. Nevertheless, equity and fixed-income investors are aligned on key governance principles, including calling for the fair treatment of all stakeholders, demanding accurate and transparent reporting and disclosure, and a desire to minimize conflicts of interest between management and the company.

In 2022, we leveraged our position as shareholders and bondholders in some companies in order to conduct robust engagements whose outcomes may benefit clients, among other stakeholders. For example, fixed-income and equity analysts partnered to engage a pharmaceutical company to improve public disclosure on its sales mix for antibiotics, a material risk to the company; both shareholders and bondholders could benefit from being able to monitor this aspect more closely.

ESIGHT: AB'S Proprietary Research and Collaboration Tool

Because tracking, documenting and integrating our dialogues with issuers are key pillars of a successful engagement program, we've developed proprietary systems to advance these efforts.

When engagements include a substantive discussion of financially material ESG issues, our analysts document the purpose of the engagement, ESG topics discussed and the outcome in our proprietary ESIGHT system. ESIGHT integrates our ESG issuer assessments, proxy-voting history, engagements, and third-party research from MSCI and Sustainalytics. It's also a knowledge center with a wealth of ESG information, including thematic sell-side research reports, academic studies, nongovernment entity reports, specialist sustainability and climate change think-tank papers, and our own proprietary ESG ratings.

With ESIGHT, AB has a hub where bond and equity investment teams can access and share information in real time about issuers' ability to manage material ESG risks. When our investment teams conduct research or prepare for an engagement, they can explore previous interactions—querying by issuer, AB investment team, or ESG topic and theme. ESIGHT also enhances portfolio management and reporting: we can assess ESG topics by company or issuer, industry, or portfolio, and share engagement statistics, examples and outcomes with our clients.

AB continuously works to enhance ESIGHT by adding resources, such as best-practices engagement guides and FAQs on common engagement topics, to the knowledge center within the platform. To kick off this year's engagements, we added an "action engagement" template for investors to tag their engagements as action, laying out the topic and which type of action they're encouraging issuers to take. We also developed functionality to set milestones and end-date targets, including reminders for analysts to follow up with issuers. This development should also help investors track year-over-year progress.

Measurement

Taking action on measurement means monitoring the material ESG risks facing an issuer, especially in a quantitative way. We conducted 18 engagements on measurement, which included improving the measurement of topics from carbon emissions to board diversity. Most of these engagements were partially successful, meaning issuers were receptive to our conversations but still have progress to make (*Display 7*). We highlight a few case studies below.

Labor Management

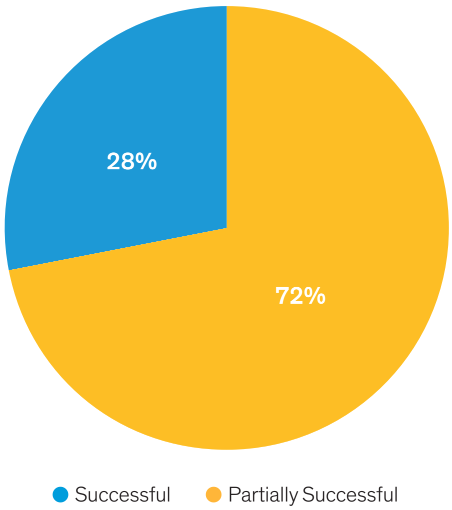
The Issue

Poor labor management is a growing concern to shareholders. Companies often lack sufficient training and initiatives for employees that help them reduce labor-related risks. In some regions, many labor-intensive companies are exposed to a high risk of workflow disruptions due to labor unrest or reduced productivity stemming from poor job satisfaction. Good labor-management practices can help employers increase workforce productivity safely and efficiently.

The Ask

Poor labor management, on the other hand, can increase risks. When engaging companies on better measurement of labor management, we hope to learn how trends in employee turnover and retention rates may affect the business, and what processes are in place to reduce employee turnover. While measurement alone may not improve employee outcomes, it's a key first step to understanding the effectiveness of a company's approach to labor management.

DISPLAY 7: OUTCOME OF MEASUREMENT ENGAGEMENTS



Source: AB

Issuer: Nidec
Sector: Industrials
Region: Japan

Nidec is a Japanese manufacturing company that focuses on electric motors. Third-party researchers had noted concerns around labor-management issues at the firm, including the lack of company-wide training initiatives or development programs aimed at mitigating labor-related risks. We engaged Nidec to gain a deeper understanding of the company's stance on its labor-management practices.

We talked with the general manager of investor relations (IR) and corporate social responsibility. Management stated that manufacturing plants in Asia are generally large, with high turnover rates—which is also true for Nidec. In an effort to retain key talent, the company has developed training and development programs for certain populations—particularly its core engineers and back-office staff. In our view, these training and development programs are some of the most robust when compared with Nidec's regional peers. We believe that better measurement of program outcomes could help investors understand how they may be contributing to the overall productivity and efficiency of the company.

To address labor shortages where the company can't fill roles with people, Nidec has been trying to lessen the impact by using more robots and factory automation. In addition to the training programs for core engineers and back-office staff, we believe that these measures can improve efficiency, quality consistency and productivity. Although they're already in effect, it will take time to see the outcomes, so we'll continue to engage Nidec and measure its progress.

Carbon Emissions

The Issue

We believe that climate risk can be a material investment risk, and that issuers should consider climate change–related physical and transition risks and opportunities that are material. By measuring carbon emissions, issuers can begin to understand how to mitigate their own financial risk.

The Ask

When we engage with an issuer on carbon emissions, we ask if it measures carbon emissions, which emissions scopes are measured and what's the process for doing so. If an issuer has measurement processes in place, we ask how it monitors emissions.

If an issuer doesn't measure carbon emissions, we encourage management to consider how this practice can tie into its overall climate risk management processes.

Issuer: Meituan
Sector: Consumer Discretionary
Region: Asia ex Japan

Meituan is a Chinese internet-based commerce platform that provides products and services, such as entertainment, dining and delivery. The firm currently measures Scope 1 emissions, which are relatively low given that it's an internet platform. Meituan also measures Scope 2 emissions and has a low per-capita emissions level compared with other listed companies in China. Though the company has yet to specify Scope 2 emissions-reduction targets, it expects to comply with China's stated goals of carbon peaking by 2030 and carbon neutrality by 2060.

In our engagement with a member of Meituan's IR team, we found that the firm is working on a methodology to measure Scope 3 emissions over the next one to two years. After that, the company plans to collect emissions statistics from all regions, which may take up to another year.

We're pleased with Meituan's progress in developing a measurement methodology for Scope 3 emissions, and we'll follow up annually to monitor the company's progress in measuring Scope 3 emissions.

Board Diversity

The Issue

More diversity on boards may enhance decision-making by fostering diverse perspectives and including a broad spectrum of demographic attributes. In certain nations and industries, some companies claim that it's difficult to find senior female executive candidates, which may make board diversity more difficult to obtain.

The Ask

When engaging a company on board diversity, we typically ask for its strategy to improve it, which can affect decision-making. We also consider the firm's own diversity goals and gaps between where it is and where it wants to go. We then look for improvements in the processes within its strategy in follow-up engagements.

Issuer: Novatek Microelectronics
Sector: Technology
Region: Asia ex Japan

Novatek Microelectronics is a Taiwan-based provider of global display integrated circuits (ICs) total solutions. It designs, manufactures and markets ICs. When we engaged with the company in 2019, its Board of Directors comprised all-male members that were primarily long tenured. An average board member's tenure lasts about 19 years at the company.

During our engagement, we spoke with a representative from IR. In 2022, Novatek's board had 12.5% female representation—just one of 13 members. Although only one female board member was elected over the last three years, management acknowledged our concern and understands that improving board diversity is important to decision-making and risk oversight practices. Management noted that it's difficult to find senior female executives in Taiwan's information technology industry, though the company is actively looking for candidates. It could take considerable time for the company to enhance board diversity. Novatek's receptivity to our request is encouraging, and we'll follow up annually to measure progress.

Setting Strategy and Targets

It's important that issuers assess their material ESG risks and opportunities and set deliberate strategies around them, ideally with quantifiable targets—including interim milestones. We held 52 engagements on strategy and target setting, with the majority of them being successful (*Display 8*). We found that many issuers had strong strategies and targets in place—now it's just a matter of executing effectively. We've included some illustrative examples below.

Carbon Emissions

The Issue

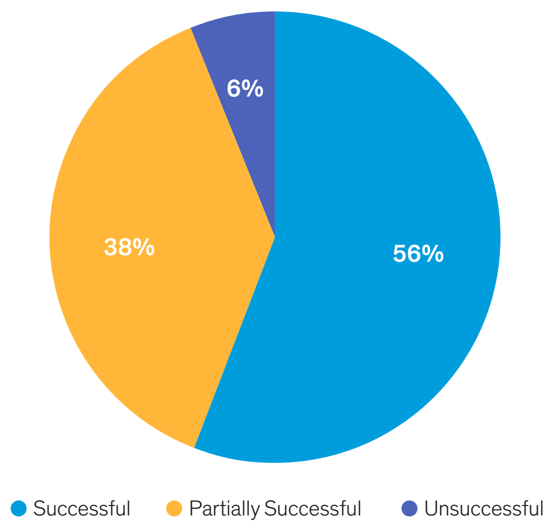
We believe that climate risk can be a material investment risk, and that issuers should consider material physical and transition risks and opportunities related to climate change. By setting tangible targets and strategies, issuers can mitigate their own financial risk.

The Ask

When we engage with issuers on carbon emissions, we ask if they have a climate-risk strategy and whether it limits risk through specific goals. If an issuer has a strategy and associated goals, we ask which emissions scopes it considers and whether metrics are science-based or aligned with the Paris Agreement. We also encourage issuers to disclose their climate-related targets through industry-standard frameworks.

If an issuer does not have a climate strategy or risk management processes, we encourage management to set them.

DISPLAY 8: OUTCOME OF STRATEGY AND TARGETS ENGAGEMENTS



Source: AB

Issuer: Taylor Morrison Home
Sector: Housing
Region: North America

Taylor Morrison Home is a homebuilder operating in the US. It hasn't formally committed to reducing its greenhouse gas (GHG) emissions. The majority of the company's environmental-related targets align with reducing the energy ratings of newly built homes by using ENERGY STAR appliances and more efficient building materials, as well as by building homes that will be carbon neutral over their lifetimes—through solar uptake, for example. But the company lags its large, publicly held peers in setting a strategy and targets related to GHG emissions. Taylor Morrison currently measures Scope 1 and 2 emissions, with plans to address Scope 3 in the future. Scope 3 emissions represent approximately 99% of emissions within homebuilders' supply chains.

When speaking with the vice president of IR, we discussed quantifying the company's emissions, setting Scope 1 and 2 emissions targets, and next steps required to target Scope 3 emissions. The company is working to publish its 2023 ESG Report, disclosing Scope 1 and 2 emissions, with plans to create targeted reductions in those areas.

However, Taylor Morrison has yet to commit to disclosing Scope 3 emissions or setting targeted reductions. Management did provide us with a framework on its plan for measuring Scope 3 emissions, and saw reducing emissions from its suppliers as the largest opportunity to reduce its carbon footprint and mitigate associated risks. The company is currently constructing a materiality matrix for its suppliers and product inputs. It's also engaging with suppliers and taking a holistic view of specific aspects of houses where it can influence suppliers.

We're optimistic about the company's promised progress. We'd like to see it set specific targets for Scope 1 and 2 emissions reductions and commit to disclosing Scope 3 emissions, establishing a formal strategy.

Toxic Emissions and Hazardous Waste

The Issue

While carbon emissions are a large focus globally, toxic emissions have been increasingly scrutinized and are often linked to suspicions of causing cancer or birth defects. More stringent emissions standards and laws are coming down the pike to help address this issue. To address these risks and associated regulation, companies should set a strategy and corresponding targets.

The Ask

When toxic emissions and hazardous waste are a material risk to issuers, we ask whether they monitor, reduce and dispose of hazardous waste and whether they have an approach to tackle toxic emissions. If a company has developed a strategy, emissions-reduction targets should follow to help it measure progress against goals.

Issuer: First Quantum Minerals
Sector: Materials
Region: North America

First Quantum Minerals is a Canadian-listed mining company that operates primarily in Panama and Zambia. Past engagements with the firm focused on modern slavery risks and carbon emissions. First Quantum has yet to set emissions-reduction targets for toxic emissions, although it publishes its nitrogen dioxide and sulfur dioxide emissions publicly.

We engaged with the group ESG controller and a representative from IR, making clear our desire for the company to adopt a strategy and emissions-reductions targets for its toxic emissions in the near future. We learned about internal policies on risk management for tailings dams. We gained a better appreciation for its policies, but we also encouraged the company to publish an independent audit of its tailings dam safety.

We expect the company to adopt emissions-reduction targets for toxic emissions. In adopting more comprehensive measures on this issue, we believe that the company will move to be in line with its peers and limit future risks. First Quantum was also receptive to our suggestion of publishing independent audits of its tailings dam safety. We'll continue to encourage these practices and monitor its progress annually.

Product Safety and Quality

The Issuer

Creating products that are safe to operate under normal use is important for a company's reputation, operations and profit. Quality and safe products can minimize a company's risks from potential legal liabilities, consumer backlash that may hurt market capitalization, and access to capital, damage to brand and reputation, and impaired abilities to recruit and retain talent.

The Ask

We ask issuers whether they have processes for tracing products throughout their supply chains. If they don't, we ask them to set a strategy and targets focused on tackling the issue of poor product quality or hazardous products. We encourage companies to develop interim targets to assist in achieving the goal of improved product safety and quality.

Issuer: Ford Motor
Sector: Consumer Discretionary
Region: North America

Ford Motor is one of the largest US-based automobile manufacturers. Poor product quality has recently hurt its operating profit. For example, annual payments for warranty and field-service action costs have been approximately US$4 billion in recent years, a material share of the company's total operating profit and in excess of many peers. Product safety and quality are the biggest detractors from some of Ford's third-party ESG ratings, because poor product quality typically results in poor customer experiences.

We met with the CFO, executive quality director and director of total rewards to discuss improvements and executive compensation. When engaging Ford on this issue, we noticed that management has consistently met incentive plan targets on product quality. Given the track record of poor product quality, we questioned whether the targets had been set appropriately.

We encouraged the adoption of both increased disclosure on product quality along with the setting of appropriate targets for quality improvements or warranty cost reductions. Management explained that the company intends to provide improved disclosures on quality trends, creating a framework to think about expenses on new vehicles (which the current management team has control over) compared with older vehicles by the spring of 2023. We'll engage Ford in 2023 to see if progress has been made.

Improving Disclosure and Transparency

It's encouraging from a risk-management perspective when we see issuers begin to measure material ESG risks facing their businesses and set targets around these risks. However, disclosing these measurements and the progress made against an ESG strategy is important. It enables shareholders and bondholders to assess progress and determine whether further engagement is required. We had 46 engagements on disclosure and transparency, and the majority were successful, in our view (*Display 9*). Many issuers are effectively disclosing their approach to managing material ESG risks, with many others well on their way to doing so. A few examples are included below.

Diversity, Equity and Inclusion

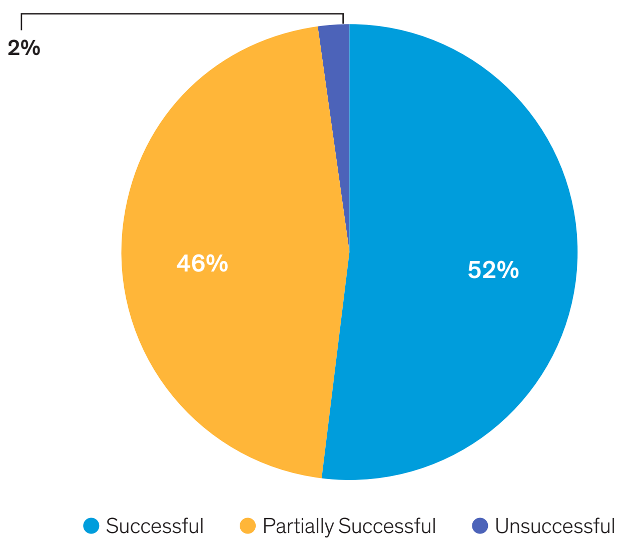
The Issue

The inability to attract, retain and develop skilled workers can result in a less productive workforce, lower product quality, a less competitive business and greater costs from high employee turnover. Including diverse perspectives and talent more broadly can elevate a company's decision-making processes and operations.

The Ask

During an engagement on diversity, equity and inclusion (DEI), we asked how DEI is incorporated into the issuer's talent-acquisition process. Data collection is an important step in its DEI commitment. Providing transparent data to the public on factors such as gender or race—equal opportunity data, for example—is a best practice and often a regulatory requirement. We encourage improved transparency and disclosure on employee diversity data, and steps to ensure these practices are incorporated in an issuer's overall approach to DEI.

DISPLAY 9: OUTCOME OF DISCLOSURE AND TRANSPARENCY ENGAGEMENTS



Source: AB

Issuer: Hexcel
Sector: Industrials
Region: North America

Hexcel, an industrials company based in North America, manufactures carbon fiber and composites for the aerospace, wind power, auto and industrial end markets. We engaged the company about disclosure on its DEI practices in August 2021, when it indicated that DEI is a priority for the board and management, saying:

"An engaged, innovative, skilled and collaborative workforce is critical to our continued leadership in the advanced composites industry. We are committed to efforts to increase diversity and foster an inclusive work environment that supports our global workforce through recruiting efforts, equitable compensation policies, and educational workshops to promote a positive and collaborative culture."

The company stated that its current workforce is well diversified across technical talent, direct labor and administration. Hexcel tracks diversity among the board, senior leadership team and employees more broadly but does not disclose the data externally. Although Hexcel indicated its workforce diversity is good, we believe that the lack of detailed disclosure lags peers in the market, and we encouraged the company to improve it.

We raised this concern again when we met with the chief human relations officer, chair of the compensation committee and vice president of IR in May 2022. They assured us that they would raise the issue at the board level. The Human Resources department also noted that our August 2021 engagement pushed them to publicly disclose a new social commitment requiring a diverse candidate slate for 100% of external hires at the executive-management level and for board appointment.

Hexcel continues to lag peers on disclosing employee diversity data, though we believe that improved disclosure will be forthcoming. We'll continue to monitor the company's practices for future improvements.

Opportunities in Nutrition and Healthier Products

The Issue

More nutritious and healthier products are increasingly in demand from consumers, and brands should adapt and invest in research and development to deliver them. It's important to have a strategy in place to offer and market these products, and brands should stay current on the regulatory environment, ensuring they're operating in compliance and reducing regulatory risk. Lastly, low-income and underserved populations are hurt more by less healthy products, creating opportunities across sectors to provide safe, affordable access to better products for this demographic.

The Ask

When issuers market themselves as socially good, it's important that they provide transparent disclosure on their practices to support their claims, as not doing so could pose reputational risk. We encourage issuers to disclose data such as the company's strategy for developing new, healthier products or the percentage of sales that meet its health and nutrition standards.

Issuer: Hain Celestial
Sector: Consumer Staples
Region: North America

Hain Celestial, a US company focused on packaged foods and personal care items, has a long history of brands oriented toward health and wellness. This history positions it well to pursue opportunities in nutrition and healthier products, in our view.

We engaged with Hain's CFO, general counsel and CEO to understand how the company incorporates nutrition and health considerations into its product-development strategy. Hain provided an overview of its goal to disclose the minimum nutritional standards set by the company throughout its brand portfolio by fiscal year 2025.

Management provided several examples of the ways many of its brands consider nutritional and health characteristics throughout product development. For example, the brands aim to select healthy, nutritious ingredients for new products. Many of its brands already meet minimum nutritional standards. The missing piece is providing quantitative disclosures—we strongly advocated for the company to improve on this aspect. Two of Hain's brands have met these standards and are B Corp–certified (Ella's Kitchen and Cully & Sully). Hain can improve by providing more frequent disclosures on its progress in this regard.

We specifically suggested that the company disclose the percentage of sales already meeting its desired minimum nutritional standards and the percentage of sales derived from B Corp–certified brands, including additional case studies on how it incorporates nutritional standards in product development (such as future sustainability reports). The company was very receptive to our suggestions, and we expect further improvements over the next 12–18 months.

ESG-Labeled Bonds

The Issue

When companies issue ESG-labeled bonds, it can be a catalyst to enhance ESG data disclosure, especially for privately owned companies. These firms generally face fewer requirements to disclose ESG data, which can lead to challenges for investors who evaluate these entities: there are fewer available data points to analyze investment risks. Privately owned companies that issue ESG-labeled bonds and accompany them with ESG transparency may face a lower cost of capital; investors who request this ESG disclosure may also benefit.

The Ask

Investors in privately owned entities can play a unique role in encouraging private companies to improve transparency and disclosure. Organized, robust and uniform data enable investors to benchmark performance and track improvements over time. Finally, well-structured ESG-labeled bonds can catalyze ESG improvements and potentially lower credit risk.

Issuer: Carlyle Group
Sector: Financials
Region: North America

US-based Carlyle Group is one of the largest private equity firms in the world, and AB has material bond and loan positions in many of Carlyle's portfolio companies. Carlyle co-leads an ESG Data Convergence Project with CalPERS. It's an open partnership of private equity stakeholders committed to streamlining the private investment industry's historically fragmented approach to collecting and reporting ESG data.[1]

Our team met with Carlyle's ESG Head to learn more about the company's ESG practices broadly and its leadership role in the ESG Data Convergence Project. We aimed to promote improved reporting and disclosure practices at the company level through the project, which currently features summary private equity data.

We believe that the project arose organically from Carlyle's commitment to managing ESG risks and opportunities and is focused on core questions relevant to most companies. When we asked for increased disclosure and transparency on portfolio companies within the project, Carlyle was receptive: it will be determining ESG metrics it feels comfortable sharing with lenders and bondholders. We'll reengage the company next year to gauge progress on the requested action. Carlyle also seems amenable to using this enhanced disclosure to craft well-structured ESG-labeled bonds in the future.

1 "What we do," ESG Data Convergence Initiative (website), accessed February 15, 2023, https://www.esgdc.org/#:~:text=What%20%7C%20The%20ESG%20Data%20Convergence,collecting%20and%20reporting%20ESG%20data.

Making Meaningful Progress

When we engage for action, we may encourage issuers to make meaningful progress on managing the most financially material ESG issues facing them. This could mean encouraging companies to include ESG metrics in executive compensation to better align incentives. Or it could mean encouraging them to address the risk of modern slavery in their operations and supply chains.

The vast majority of our engagements during 2022 were focused on making meaningful progress to mitigate risk—we conducted 172 engagements on this action type. Most were partially successful, with issuers appearing to be progressing, but they still have a way to go (*Display 10*). We'll continue engaging with these issuers during future campaigns and pushing for progress.

Executive Remuneration

The Issue

We believe that accountability for material ESG issues at the top levels of an organization is important to creating a sustainable business, and one way of holding management accountable is by integrating ESG into executive compensation plans. Incorporating key performance indicators (KPIs) can help foster stakeholders' understanding of a company's strategic focus and direction. When we engage with issuers, we encourage them to keep this principle in mind when formulating their approach to pay plans.

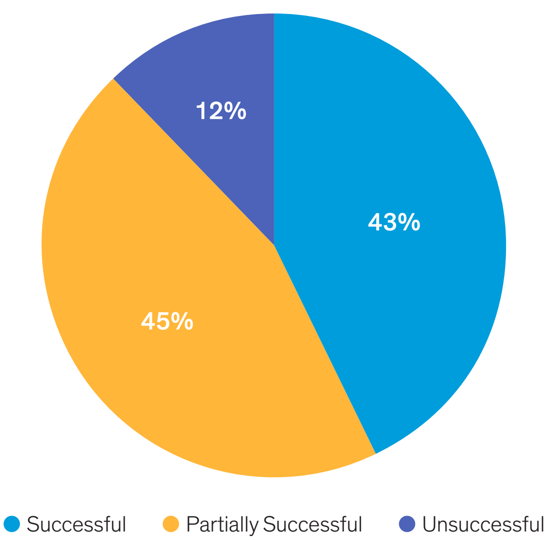
The Ask

Our goal in engaging issuers on executive compensation plans is to encourage meaningful progress, tracking their efforts and advances in incorporating material ESG metrics. We first ask whether ESG metrics are incorporated. If they are, we ask follow-up questions to determine whether the metrics are appropriate and well implemented. If they aren't, we further engage on best practices and encourage the companies to improve their targets.

If an issuer doesn't include ESG metrics, we ask whether this was an active decision or an oversight—the issuer might be considering acting but hasn't yet. For example, the issuer may still be in the early stages of measuring ESG factors and not yet feel comfortable relying on related metrics in its executive compensation plans. An issuer may also still be determining which metrics best suit its business model. If an issuer is receptive, we share best practices.

Ultimately, we want issuers to include material, measurable ESG metrics in their executive compensation plans, explain how those metrics are incorporated and how progress is measured, and disclose performance against them.

DISPLAY 10: OUTCOME OF PROGRESS ENGAGEMENTS



Source: AB

Issuer: Aptiv
Sector: Consumer Discretionary
Region: North America

Aptiv, a global supplier of automotive components and technology, has a product portfolio that's increasingly focused on safety and electrification. Since 2018, we've been engaging with the company on ESG issues including carbon, executive compensation and supply chain risks.

Aptiv showed little interest in including ESG metrics in executive compensation in our first engagement, but a year later added a Strategic Results Multiplier (SRM) to the annual incentive plan to capture nonfinancial objectives. Over time, the firm has added sustainability commitments, including KPIs that cover people (such as DEI), product, planet (including carbon, water and waste), and platform (ethics, compliance and human rights, among others). The progress is encouraging, but there's still room for improvement. We engaged with Aptiv's head of IR and ESG initiatives again earlier in 2022 to discuss the company's compensation plans. Focusing the SRM on annual incentives has a relatively small impact on total compensation, so we continued to advocate for raising the SRM weighting or including ESG metrics in the long-term incentive plan. In response, Aptiv noted that business success is highly correlated with positive ESG outcomes, and that customers demand improved ESG performance. As a result, the impact on executive compensation is much larger than the specific goals targeted in the SRM, and the company's near-term focus is on ensuring the integrity of collected ESG data and on distilling KPIs to drive greater focus and accountability.

Aptiv has made steady progress in ESG disclosure and performance, in our view, and we believe that its investment in ESG data infrastructure will be an advantage in meeting more stringent reporting standards. We'll continue to engage regularly with Aptiv on executive compensation and other topics.

Modern Slavery

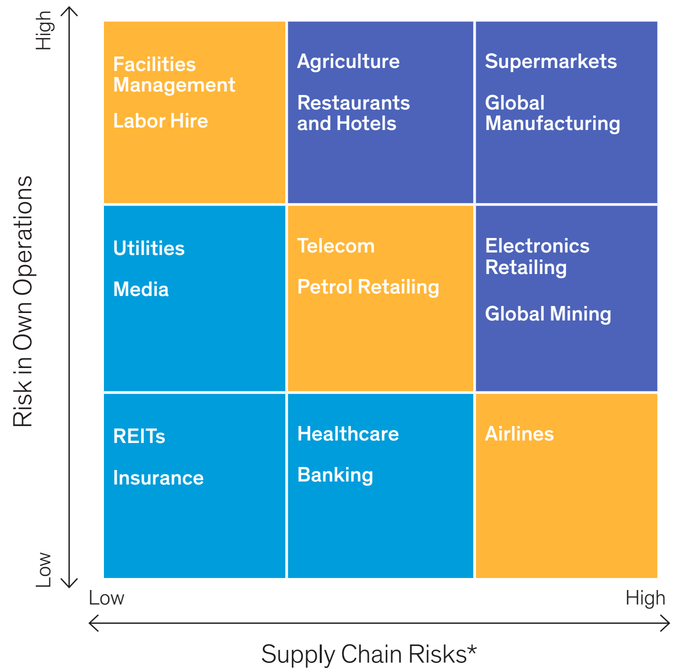
The Issue

Modern slavery, including forced labor, debt bondage, forced marriage, slavery and slavery-like practices, human trafficking, and child labor is a pervasive social issue, generating annual profits upward of US$150 billion.[2] According to one estimate, about 50 million people worldwide are victims of modern slavery on any given day, 54% of which are female.[3] To end modern slavery by 2030—the target of the United Nations Sustainable Development Goals—more than 10,000 people would have to be freed each day.

Active investors are in a position to address the systemic problem of modern slavery that can pose material financial risk to exposed companies. With deep industry knowledge, AB and other active managers are able to zero in on industries, regions and companies at high risk of modern slavery. In many cases, investors also have the ear of company management and can encourage companies to adopt best practices for risk management.

2 International Labour Organization
3 Global Estimates of modern slavery in 2021, as measured by ILO, Walk Free and IOM

DISPLAY 11: FRAMEWORK TO ASSESS HIGH-RISK-TO-PEOPLE STOCKS



REITs: real estate investment trusts.

* Supply chain risks can include customers and extend to second- and even third-tier suppliers when the corporation's behavior contributes to modern slavery risks.

Source: AB

Through active engagement and by communicating our expectations of companies, investors can push issuers to make advances on modern slavery and generating long-term, sustainable performance. But it's a complex issue that requires systematic, in-depth research, broad industry involvement across the investment community.

The Ask

As investors, we believe that by engaging issuers on modern slavery risks in their operations and supply chains, we can help reduce their risk exposure to modern slavery. We've developed proprietary frameworks to assess modern slavery risks facing issuers and specific criteria to share and encourage best practices.

We use a two-dimensional matrix to assess high-risk-to-people issuers, in terms of their own operations and their supply chains. An issuer might have a low risk of modern slavery exposure in its own operations but high risk in its supply chain—airlines, for example. In *Display 11*, we've plotted industries to illustrate how the framework is used; in practice, individual issuers are plotted within the framework.

After assessing issuers' exposure to modern slavery risk, we engage with them, sharing best practices to reduce that risk, when material. We've identified five criteria that, in our view, capture best practices in reducing modern slavery risk (*Display 12*).

DISPLAY 12: BEST PRACTICES—HOW CAN COMPANIES REDUCE MODERN SLAVERY RISK?

Governance Framework	Risk Identification	Action Plan to Reduce Risks	Action Plan Effectiveness	Future Improvement
What steps are the board and senior management taking—through policies and procedures, culture and values—to align the business with the goal of reducing modern slavery risk?	The criminal and covert nature of modern slavery practices makes risk identification a difficult and delicate task—but a critical one. How well does the firm understand the challenge, and how robust are the techniques and processes it uses to identify the risk?	Is the plan a realistic solution to reduce risks to people within the company's operations and supply chains? Does the company appropriately and effectively train and empower employees and suppliers to identify and reduce risks?	To what extent have the company's actions reduced risk, and how are the board and senior executives measuring progress? What procedures are in place to ensure that follow-up actions are implemented and monitored?	For many companies, the road to reducing modern slavery risk will be long and stretch through unfamiliar territory. The best firms will be able to evaluate their progress each step of the way and make changes with an eye toward continuously improving their performance against each of the four previous criteria.

Issuer: Nestlé
Sector: Consumer Staples
Region: EMEA

Nestlé is a Swiss multinational food- and drink-processing conglomerate corporation. Much of the cocoa it sources is grown in West Africa, which has significant issues with child labor, deforestation and poverty. For example, the causes of child labor include lack of educational facilities, lack of an adult labor force, lack of income and communities with high rates of gender inequality. These issues are interrelated and must be addressed holistically. Nestlé developed a child labor monitoring and mediation system, which has provided much data on how children end up in modern slavery situations.

Nestlé launched an income accelerator program (IAP) pilot in 2020–2021, covering 1,000 households in the Côte d'Ivoire. By the end of 2023, the program will be rolled out to more than 10,000 households, aiming to reach 100% of its cocoa supply chain by 2030. Nestlé has also set up a strategic advisor committee representing diverse stakeholders (including suppliers, producers and local civil society) to advise on the IAP program, which provides cash incentives and support to farmers in the cocoa supply chain.

The cash incentives are linked to KPIs. For example, the farmers receive €100 for enrolling all children in the family in school, €100 for good agricultural practices (farmers are required to prune one hectare), €100 for planting 10 trees, €100 for diversified incomes and €100 for achieving all four KPIs. To support gender empowerment, half of the incentive pay goes to each spouse. The cash incentives will be disbursed via direct secure mobile service transfers to help combat any prevalent local corruption.

Along with providing cash incentives, Nestlé has also supported the region by building more than 53 schools and providing school kits to the children. Typically, cocoa farmers make US$3,000 a year, 70% to 80% of which comes from cocoa. Nestle encourages farmers to diversify their income by raising chickens, by growing rice in paddies or through beekeeping. The ambition is to increase net cocoa income via improved productivity, diversified income and incentives.

We met with the head of cocoa sustainability Issues, a member of IR and an ESG expert from Nestlé. Considering that the IAP requires all farmers to have bank accounts and the ability to access mobile payments, we asked Nestlé whether it is tackling this issue. According to the team, the adoption of mobile devices has increased, and mobile payment is becoming increasingly universal. The team also noted another obstacle in the mobile payment structure: some farmers don't have a form of identification, so they can't receive mobile payment via a bank account. Nestlé has partnered with local mobile companies to help farmers set up mobile banking and with a Europe-based organization to ensure farmers adhere to the KPIs.

This engagement was fruitful. Nestlé appears to be making meaningful progress on the root causes of child labor. By tackling these issues, it can get one step closer to addressing modern slavery risks. This process is continuously evolving, and we'll continue engaging with the team to monitor progress.

Water Management

The Issue

Water management involves the planning and monitoring of water resources, guided by regulations and company policy. Poor management of water can run the risk of water scarcity or water pollution and pose material risks to companies by way of fines and other penalties.

The Ask

When engaging issuers on water management, we seek to understand how they address their risk exposure to water stress or scarcity, what initiatives or compliance measures they have in place for regulations, and how their operations affect the surrounding water sources and local communities. We encourage issuers to reduce their water footprint, maximize water usage efficiency and improve water quality.

Issuer: Kering
Sector: Consumer Discretionary
Region: EMEA

Kering is a France-based multinational corporation specializing in luxury goods, including clothing, leather goods and jewelry from fashion houses Gucci, Saint Laurent, Bottega Veneta, Balenciaga, Alexander McQueen and more. The company's 2025 Sustainability Strategy covers three focus areas: Care for the Planet, Collaborate with People and Create New Business Models.

Specifically, Care for the Planet includes targets for a 50% reduction in carbon emissions, reducing environmental profit-and-loss (EP&L) accounting intensity by at least 40%, promoting suppliers' adoption of Kering Standards (71% of key raw materials are aligned with those standards), striving for sustainable design and traceability (90% of key raw materials are traceable), creating innovation labs, and offsetting carbon.

A main focus of our meeting with the company's head of Sustainability Impact Disclosure and a representative from IR was water management. Water consumption and water pollutions are two of six key EP&L indicators—together, they account for 18% of the firm's environmental impact. There's discussion within Kering around limiting water pollutants, but impending EU regulation will create more stringent guidelines around microfibers. Kering noted that the first microfiber loss occurs during the first wash of clothing at the supplier level, so debate continues on who bears responsibility for microfibers—the supplier, Kering or washing-machine firms?

The Kering Materials Innovation Lab launched a pilot in 2021 to test an industrial-scale microfiber filtration system in its supply chain. The results and feedback from this pilot will be used to further optimize and refine the filter and to validate efficiency in capturing microfibers; results will also be shared with the broader industry. We encouraged ongoing exploration of filtration systems. Kering appears to be well aware of the material environmental and regulatory risks and is taking action to mitigate exposure to them.

This engagement confirmed our perception that Kering is being thoughtful about managing these risks. The company appreciated our concerns and planned to relay them to management. We'll reengage the issuer to track progress on how microfiber-filtration initiatives evolve.

Appendix

2022 Issuer List

Abbott Laboratories

Abcam

Abiomed

Adani Group

Adobe

Advanced Micro Devices

Aedas Homes

AIA Group

Akamai Technologies

Align Technology

Allegion

Allied Universal

Altice

AMADA

AMETEK

Amgen

Amphenol

Apollo Tyres

Aptiv

Ares Management

Arista Networks

Asahi Group

ASE

Ashtead

ASML

Autodesk

Bally's

BANDAI NAMCO Holdings Bank of America

Bio-Rad Laboratories

BIPROGY

Blackstone

Block

Bread Financial

Broadcom

Burberry

Canadian Natural Resources

Carlyle Group

CBRE

CDW

Cellnex Telecom

Central China Real Estate

China Longyuan Power

China Yangtze Power

Cigna

Cognex

Cognizant

Colgate-Palmolive

Comcast

Companhia Siderúrgica Nacional Constellation Brands

Copart, Inc.

Daito Trust Construction

Deere & Co.

DIP

Dow Chemical

DP World

DuPont

Edwards Lifesciences

eHi Car Services

E Ink

Elevance Health

Emerson Electric

ENN Energy Holdings

Entegris

Enterprise Products Partners

EOG Resources

EPAM Systems

EQT

F5 Networks

FANUC

First Quantum Minerals

FLEETCOR Technologies

Floor & Decor

Ford Motor

Fortinet

Gansu Shangfeng Cement

Glencore

Goldman Sachs

Gruma

Hain Celestial

Hansol Chemical

Heathrow Airport

Hexcel

HUGO BOSS

Icade

IDEX

IDEXX Laboratories

IHI

Illumina

Inalum

Incitec Pivot

Indika Energy

Indofood

Infineon Technologies

Insulet

Intercontinental Exchange

International Flavors & Fragrances

International Games System

IPG Photonics

Jollibee Foods

KB Financial
Kering
KeyBanc
Keyence
KLA
Knight-Swift Transportation
Konami
Kronos Acquisition Holdings Inc.
Lenovo
LifePoint Health LKQ
Lonza
LPL Financial
MACOM
Madison Dearborn Partners
Manhattan Associates
MaxLinear
Medco Energi
Medtronic
Meituan
Meta Platforms
MetLife
Mettler-Toledo International
Microsoft
Minth
Mitsubishi UFJ Financial Group
Mobile World Investment
Monolithic Power Systems
Mosaic Company, The
Murata Manufacturing
National Australia Bank
NAVER
NEC Networks & System integration
Nestlé
Nidec
Nike
Northfield Bancorp
Novatek Microelectronics
NVIDIA Corporation
OCP
Otis Worldwide
Pan Pacific International Holdings
Park24
Paychex
PayPal
PerkinElmer, Inc.
Pernod Ricard
Philips
President Chain Store Corp
Progressive
Prosus
City of Quebec Canada
Radiology Partners
Raymond James Financial
Raytheon Technologies
Recruit Holdings
Regal Rexnord
Repsol
Richmond Mutual Bancorp
Roche
Roper Technologies
Sally Beauty Holdings
SalMar
SB Financial Group
SBA Communications
SCREEN Holdings
Sea
Sensata Technologies
ServiceNow
Shea Homes
Shell
Sherwin-Williams
Sika Group
Smithfield Foods
Southwest Gas
Spark New Zealand
Stifel Financial
Sun Communities
Suncorp Group
SVB Financial
Target
Taylor Morrison Home
Techtronic Industries
Tencent
Terumo
Teva Pharmaceutical
Texas Instruments
Textron
TFI International
TJX Companies
T-Mobile US
Tosoh
Trex
Trust Fibra UNO
TTM Technologies
Tyler Technologies
Tyson Food
UDR
UMC
UnitedHealth Group
Universal Robina Corporation
UT Group
Vedanta
Veeva Systems
Verizon
Verscend Technologies
Vertex Pharmaceuticals
Visa
Vivion Investments
Volvo
Walmart
Weibo
Wells Fargo
Westpac
Weyerhaeuser
Yum China
Zebra Technologies
Zoetis

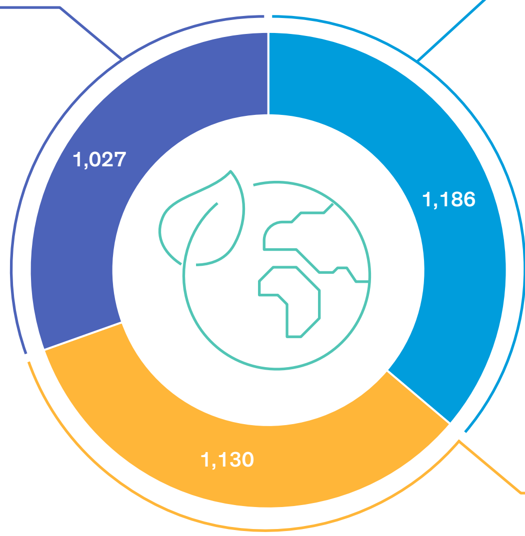
2022 Firmwide Engagements

In 2022, analysts documented 6,032 separate ESG discussion topics across 1,932 engagements with 1,426 unique issuers. Around 1,186 meetings included one or more environmental topics, with carbon emissions the most discussed, by far. In around 1,130 meetings, social issues were discussed, with diversity, equity and inclusion being the most frequent topic. And of about 1,027 meetings in which one or more governance issue was discussed, executive remuneration was the most popular topic.

Display 13: Engagements by ESG Pillar*

Governance

Pay	489
Board-Level Diversity	240
Board Independence	211
Other	184
Organizational Culture	136
Business Ethics	92
Entrenched Board	79
Accounting	58
Crisis Management	57
Corruption and Instability	46
Combined CEO Chair	42
Anti-Competitive Practices	19
International Norms	16
One Share, One Vote	15
Sanctions	15
Proxy Access	11
Right to Call Special Meetings	11
Financial System Instability	9
Board	1



Environmental

Carbon Emissions	840
Opportunities in Clean Tech	156
Opportunities in Renewable Energy	154
Opportunities in Green Buildings	124
Water Management	115
Product Carbon Footprint	111
Net Zero	108
Supply Chain—Environmental	103
Climate Change Vulnerability	101
Packaging Waste	86
Resource Management	68
Biodiversity and Land Use	67
Toxic Emissions and Hazardous Waste	65
Other	49
Electronic Waste	14
ESG-Labeled Bonds	12
International Norms	9

Social

Diversity and Inclusion	435
Human Capital Development	412
Labor Management	239
Employee Health and Safety	199
Privacy and Data Security	180
Product Safety and Quality	139
Supply Chain—Social	124
Other	71
Responsible Investment	51
Modern Slavery	48
Opportunities in Financial Inclusion	45
Opportunities in Healthcare	37
Stakeholder Engagement	33
Financial Product Safety	32
Opportunities in Nutrition and Healthier Products	20
Insuring Health and Demographic Risk	16
Opportunities in Communications	11
Opportunities in Education	10
International Norms	8
ESG-Labeled Bonds	6

***** Numbers will not sum to total, as engagements frequently discuss multiple ESG topics across or within pillars. We integrate material ESG factors into most of AB's actively managed strategies. AB engages issuers where it believes the engagement is in the best financial interest of its clients.

As of January 2023 | **Source:** AB

IMA-350133-2023-02-14
AB–8055–0323
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