AB TAX AWARE FIXED INCOME PORTFOLIO

Separately Managed Accounts

MARKET OVERVIEW

Bonds rallied again in the second quarter, as investors are expecting the US Federal Reserve (the Fed) to lower short-term interest rates in response to slower economic growth, particularly with manufacturing and low inflation. The 10-year Treasury yield began the year at 2.7%, fell to 2.4% by the end of March and stood at 2.0% at the end of June. Municipal yields have fallen sharply as well: the 10-year AAA yield began the year at 2.3%; fell sharply during the first quarter to 1.9%, with investors chasing too few bonds; and dropped some more, to 1.6%, by the second quarter's end.

As a result of the rally, bond returns were strong in the second quarter and year to date: the Bloomberg Barclays Municipal Bond Index returned 2.14% for the quarter and 5.09% year to date, while the US Aggregate Bond Index was 3.08% and 6.11%, respectively. Within the municipal market, long-maturity bonds outpaced short and intermediate high grades as the yield curve flattened. From a credit perspective, lower-rated credits outpaced high grades, as investor demand for excess yield remains strong.

PORTFOLIO PERFORMANCE

The AB Tax Aware Fixed Income Portfolio outperformed its benchmark, the Bloomberg Barclays Municipal Index, during the quarter and the year to date, before fees. Relative performance was driven by an overweight to mid-grade credit, which outperformed similar-duration high-grade municipals during the quarter. A slightly defensive duration stance detracted from performance, as longer yields declined more than short-to-intermediate municipal yields. Given the flatness of the yield curve and the uptick in interest-rate volatility, we viewed a defensive duration stance as cheap insurance in the current environment.

Within municipal credit, we maintained our overweight compared with the benchmark, with emphasis on A-rated and BBB-rated mid-grade credit (credit quality is a measure of the creditworthiness and risk of a bond or portfolio, based on the issuer's financial condition; for purposes of this document, all ratings are based on ratings of S&P, Moody's and Fitch: AAA/Aaa is highest and D is lowest). Limited new issue supply, investor demand for yield and strong issuer fundamentals should continue to support municipal credit. As of July 3, 37 out of 43 states requiring new budgets for fiscal years starting July 1 had successfully passed them on time. This relatively smooth budget season has been made possible in part by revenues that have been in line or ahead of projections. Twenty-eight states reported fiscal 2019 general fund revenue collections exceeding projections, and 10 reported collections in line with projections, compared with only 12 reporting collections behind targets. This compares favorably with previous years. Furthermore, this solid budget performance was against a challenging target, as spending grew 5.8% in 2019—the fastest increase since 2007. And there were no states that had to make midyear budget cuts due to revenue shortfalls. With good budget performance in 2019, the median rainy-day fund balance as a share of general fund spending reached 7.5%—an all-time high.

During the quarter, we maintained our position in US 10-year Treasuries, which benefited the Portfolio as 10-Year Treasury yields declined more than 10-year AAA municipal yields. The after-tax spread, the yield benefit for holding a municipal versus a treasury, is still near its most expensive levels ever at 0.45%, compared with its long-term average of 0.94%. For this reason, we are maintaining our small allocation in the Portfolio. In the current environment, the enhanced flexibility of the Portfolio should benefit investors, as we see pockets of volatility in both rate and equity markets.

OUTLOOK

We expect the Fed to lower short-term interest rates 0.75%–1.0% over the next six to nine months and for the economy to continue to grow, though at a slower rate of 1.5%–2.0%. Based on fed fund futures contracts and the price level of equities on average, our view is shared by many investors. Where our forecast differs from consensus is our outlook for inflation: we expect inflation to move higher to at least the Fed's long-term target of 2% over the next six to nine months. If this forecast becomes reality, we would expect the yield curve to steepen and for mid-grade and high-yield bonds to continue to outperform high grades.

Limited summer new issue supply should continue to support municipal bond prices. Net supply during the upcoming summer months is anticipated to be a negative $48 billion. In addition, summer coupon payments will total $45 billion, for a total net cash available to be reinvested of $93 billion.

Credit rating upgrades have been outpacing downgrades for some time now, and we expect this trend to continue even though we expect the rate of economic growth to slow. With unemployment near 50-year lows, tax collections by state and local governments continued to be higher than expectations. Improving finances, reduced supply and low yield levels should all support municipal bonds in general, and mid-grade and high-yield municipals in particular, as investors

continue to hunt for yield in what is likely to remain a low-interest-rate environment for an extended period. For this reason, we remain overweight mid-grade and high-yield bonds within the Portfolio.

PORTFOLIO INFORMATION

Sector Weights[1]	
Local General Obligation	12.1%
State General Obligation	11.5
Special Tax	10.2
Toll Roads/Transit	8.4
Water & Sewer	7.9
Health Care - Not-for-Profit	7.6
Lease	5.8
Revenue - Miscellaneous	4.9
Electric Utility	4.5
Industrial Development	3.5
Airport/Ports	3.3
US Treasury	3.0
Senior Living	2.4
Prerefunded	1.8
Tobacco	1.6
Prepay Energy	1.3
Education	0.8
Guaranteed	0.4
Other	9.0

Ratings Allocation[1,2]	
Highest of S&P/Moody's/Fitch	
AAA	20.4%
AA	40.2
A	16.3
BBB	8.9
BB & below	4.8
Not Rated	9.4

Portfolio Statistics[1]	
Effective Duration	5.4 - 5.6 years
Effective Maturity	11.1 - 11.3 years
Average Coupon	4.6 - 4.8%
Current Yield	3.8 - 4.0%
Yield to Worst	2.1 - 2.3%

You should not assume that these securities or investments we make in the future were or will be profitable or will equal the performance of the securities discussed in this document.

Market Risk: The market values of the portfolio's holdings rise and fall from day to day, so investments may lose value.

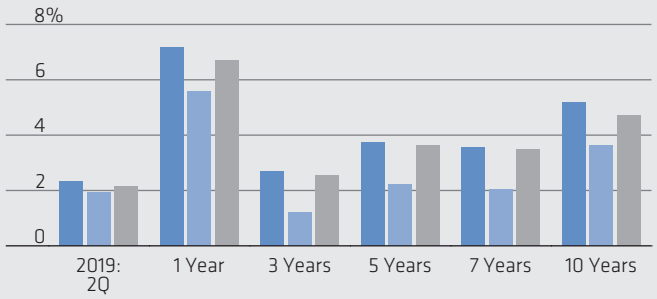
1 Based on a representative account as of 6/30/19. Portfolio holdings, characteristics and weightings will vary over time. Contact your financial advisor for a complete list of portfolio holdings. These are not recommendations to buy or sell any security.

2 A measure of the quality and safety of a bond or portfolio, based on the issuer's financial condition, and not based on the financial condition of the fund itself. AAA is highest (best) and D is lowest (worst). Ratings are subject to change. Investment-grade securities are those rated BBB and above. If applicable, the Pre-Refunded category includes bonds which are secured by US Government Securities and therefore are deemed high-quality investment grade by the Adviser. If applicable, the Not Applicable category includes non credit worthy investments; such as equity securities, currency contracts, futures and options. If applicable, the Not Rated category includes bonds that are not rated by a Nationally Recognized Statistical Rating Organization.

Source: AB.

This is supplemental information to the Tax Aware Fixed Income Managed Accounts Composite Performance Disclosure which can be found on the next page.

ANNUALIZED RETURNS (Preliminary)



- Pure Gross of Fee
- Net of Managed Account Fee
- Benchmark: Bloomberg Barclays Municipal Bond Index

	Pure Gross of Fee[3]	Net of Managed Account Fee	Bloomberg Barclays Muni Bond
2019: 2Q	2.33%	1.95%	2.14%
1 Year	7.18	5.60	6.71
3 Years	2.71	1.20	2.55
5 Years	3.75	2.22	3.64
7 Years	3.56	2.03	3.50
10 Years	5.20	3.65	4.72

3 Pure gross-of-fees do not reflect the deduction of any expenses, including trading costs, and are presented as supplemental information to net returns. Each client's returns will vary, based on the client's actual portfolio holdings and the actual fees charged to the account.

Performance results are shown pure gross of all fees and net of a maximum 1.5% managed account fee, which includes transaction costs, custodial service fees and investment advisory fees.

Please see the Composite Performance Disclosure below.

Past performance does not guarantee future results.

COMPOSITE PERFORMANCE DISCLOSURE

Period	Composite Assets (USD millions)	Composite Accounts at End of Period	Net Return (%)	Pure Gross Return (%)[4]	Internal Composite Dispersion (%)	Composite 3-Yr Ann ex Post Std Deviation (%)	Benchmark 3-Yr Ann ex Post Std Deviation (%)	Total Firm Assets (USD billions)	Bloomberg Barclays Muni Bond (Gross) Unhedged to USD Return (%)	% of Managed Accounts
2018	4,589.8	5,657	-0.23	1.27	0.15	3.28	3.35	473.5	1.28	100
2017	4,219.9	5,201	3.78	5.34	0.21	3.25	3.30	512.9	5.45	100
2016	3,098.1	4,067	-1.10	0.38	0.26	3.30	3.38	444.5	0.25	100
2015	1,783.6	2,242	2.22	3.76	0.19	3.27	3.36	432.1	3.30	100
2014	1,109.4	1,349	6.35	7.95	0.41	3.35	3.67	440.7	9.05	100
2013	566.7	807	-3.90	-2.45	0.31	3.45	3.96	416.5	-2.55	100
2012	122.1	176	6.43	8.03	NM	3.00	3.70	395.7	6.78	100
2011	0.3	1	8.19	9.82	NM	3.64	4.57	336.5	10.70	100
2010	0.2	1	5.29	6.87	NM	4.61	6.26	399.8	2.38	100
2009	335.0	1	8.94	10.58	NM	4.28	5.92	419.8	12.91	0
3 Years[5]			0.79	2.31					2.30	
5 Years[5]			2.17	3.70					3.82	
10 Years[5]			3.52	5.07					4.85	

NM Not Meaningful, fewer than two accounts were included in the Composite for the full period. 4 Pure Gross Return is supplemental information. 5 Annualized through most recent year-end.

PRESENTATION OF THE FIRM—AllianceBernstein L.P. ("ABLP") is a registered investment advisor with the US Securities and Exchange Commission. AB Institutional Investments and AB Investments (collectively, the "Firm") are the institutional and retail sales, marketing and client service units of ABLP. In February 2006, Alliance Capital Management L.P. changed its name to ABLP. COMPLIANCE STATEMENT—The Firm claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. The Firm has been independently verified for the periods from 1993 through 2017. The verification reports are available upon request. Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the GIPS standards on a firmwide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. For the performance period presented, investment professionals may have changed or departed, none of which in the Firm's view have altered the composite's strategy. COMPOSITE DESCRIPTION—The performance results displayed herein represent the investment performance record for the Tax Aware Fixed Income Managed Account Composite (the "Composite"). The Composite includes all fee-paying discretionary accounts. The Composite consists of accounts managed in an active fixed income strategy which primarily invests in individual high-quality Municipal Securities and high-quality Taxable Securities as well as pooled-vehicles designed to provide exposure to the high income municipal bonds, investment-grade corporates and taxable multi-sector bond markets. Accounts over $10 million in market value may elect to use individual bonds, rather than pooled-vehicles, to invest in these sectors. The Composite seeks long-term after tax returns with moderate sensitivity to risk. For the period prior to 9/30/10, the Composite has been linked to the firm's Institutional Tax Aware Fixed Income Composite. As of December 31, 2010, and December 31, 2011, 100% of the Composite assets were in a non-fee paying proprietary account, respectively. From December 31, 2012 to June 30, 2015 less than 1% of the Composite assets were in a non-fee paying proprietary account. The creation date of this Composite is January 2011. Accounts in the Composite may utilize derivative contracts, including but not limited to, swaps, swaptions, options, futures, options on futures and currency transactions (including forward currency contracts) for risk management purposes, duration management, yield-curve management or for enhancing expected returns by adjusting exposure to the markets, sectors, countries, currencies or specific securities permitted by these guidelines. The impact of all derivatives is fully incorporated into the calculation of risk and return and the use of derivatives shall not violate the investment guidelines that limit exposure to markets, sectors, countries, currencies or specific securities. Investment in non-exchange-traded (over-the-counter) derivatives exposes the accounts within the Composite to counterparty risk. A complete list with descriptions of all composites managed by the Firm and/or additional information regarding policies for valuing accounts, calculating performance, and preparing compliant presentations is available upon request via email to CompositeRequests@alliancebernstein.com. TOTAL RETURN METHODOLOGY AND FEE STRUCTURE- Performance results are shown in two formats. Pure gross returns do not reflect the deduction of any trading costs, fees or expenses. Pure gross-of-fees returns are supplemental to net returns. Net returns are calculated by subtracting the highest applicable Managed Account fee (1.5% on an annual basis, or 0.125% on a monthly basis) on a monthly basis from the pure gross Composite monthly return. The Managed Account fee includes transaction costs, custodial service fees and investment advisory fees. RATE OF RETURN—No representation is made that the performance shown in this presentation is indicative of future performance. An account could incur losses as well as generate gains. Performance figures for each account are calculated monthly on a trade-date basis using a total rate-of-return calculation. Investment transactions are recorded on a trade date basis, and interests and dividends are recorded on accrual basis, net of withholding taxes, if applicable. Investments in securities are valued in accordance with the Firm's Valuation Policies and reflect a good faith estimate of fair value levels for all investments, which may not be realized upon liquidation. The fair valuation process requires judgment and estimation by the Firm. The gross-of-fee returns reflect the deduction of trading costs. The Composite returns are calculated based on the asset-weighted monthly composite constituent account returns where the weight is the beginning fair value of the accounts. DISPERSION—Internal dispersion is calculated using the asset-weighted standard deviation of all accounts included in the Composite for the entire year; it is not presented for periods less than one year or when there were fewer than two accounts in the Composite for the entire year. The three-year annualized ex post standard deviation measures the variability of the Composite and the benchmark returns over the preceding 36-month period; it is not presented for periods of less than three years. The benchmark, which is not covered by the report of independent verifiers, is the Bloomberg Barclays Municipal Bond (Gross) Unhedged to USD.

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