AB Concentrated Global Growth Managed Portfolio

ESG Engagement Report

During the first quarter of 2024, AB portfolio managers and analysts engaged with the senior management and/or boards of directors of companies held by Concentrated Global Growth. In the three-month reporting period ending March 31, 2024, we conducted 15 distinct engagements with 10 companies across a range of material ESG risks and opportunities, including Amazon's regionalized fulfillment strategy and resulting progress toward the company's goal of net-zero carbon emissions, corporate culture at Eaton, and Nestlé's nutritious strategy and product portfolio.

Research is the core of investing at AB, and we believe that consideration of material ESG factors can drive better research and outcomes for clients. It's important to engage directly with company management to understand the material ESG factors a company faces and incorporate them into the risk/return assessment for securities we analyze. AB engages companies where it believes the engagement is in the best financial interest of its clients. As active investors, we also use engagement to encourage firms to advance their business activities and practices to better manage these material risks and opportunities.

Summary reports of a selection of our engagements with companies during the period follow.

ESG Engagement Summary

Amazon (consumer discretionary). In our most recent engagement with Amazon, we met with the head of ESG engagement to understand how the company's recent switch to a regionalized fulfillment strategy will impact progress toward the company's goal of net-zero carbon emissions by 2040. We also wanted an update on Amazon's progress toward its carbon-neutral goals as it relates to real estate operations, including fulfillment centers, distribution centers and data centers.

Amazon made a major shift in its North American package fulfillment strategy in 2023 when the company changed from a national network to eight independent regions. The move has been significant in unlocking the cost to deliver, delivery speeds and, in turn, customer conversions—all driving upside to reported results. With a shorter last-mile travel distance, carbon emissions improvement should follow, in our view. In addition, the company recently acquired a 100% nuclear-powered data center, along with a long-term nuclear power supply contract.

The company's shift to a regionalized fulfillment model has been a step change in achieving carbon emissions reduction goals as it reduces the miles traveled per package. Following the switch to a regionalized strategy, the company saw delivery of goods within each region jump from 62% to 76%. In other words, only 24% of goods now travel outside of each region, down from 38%. This improvement drives sizable savings in miles driven for last-mile delivery (from warehouse to customer). As the company continues to optimize the location of inventory across its network, Amazon expects to see incremental carbon emissions reduction due to a lower middle-mile transportation distances (warehouse to warehouse) and by influencing suppliers on where to place goods across the company's network. Further, by making micro-mobility improvements across the various regions in the United States, management expects accelerated progress on the company's carbon emissions reduction goals.

As it relates to real estate operations, the company recently opened the world's first International Living Future Institute-certified fulfillment center in Sacramento, California. Management anticipates a more integrated approach to carbon emissions reduction efforts across its real estate portfolio through construction materials, high-efficiency equipment and alternative energy sources, noting that these elements were used when opening the company's first zero-carbon grocery store.

From the discussion, we also learned that Amazon has been the world's largest purchaser of renewable energy for the past four years, with over 500 wind and solar projects expected to generate over 77,000 GWh of energy annually.

These examples are provided for the sole purpose of illustrating how the research process can be used to help identify investable ideas in the portfolio management process. It should not be assumed that investments in any specific security were or will be profitable.
E: environment, S: social and G: governance. Source: AB

Eaton (industrials). During the period, the AB investment team travelled to Eaton's corporate headquarters in Cleveland, Ohio for meetings with its chairman and CEO, the chief operating officer and head of the company's electrical businesses, and members of the investor relations (IR) team. For the past three years, we have engaged with Eaton regularly and believe that the company faces significant opportunities for growth. However, given the leadership transition underway (CEO and CFO), discussions during this engagement were focused on strategic and financial issues, as well as topics of culture and incentives and the implications for human capital development at the company. Eaton is an Irish-American multinational power management company and sells products to customers in more than 175 countries.

Eaton maintains a mandatory retirement policy for senior executives at age 65. This policy forces a higher level of transparency around succession planning and timing than the average large publicly traded company. After nine years in the role and 25 years at the company, the current CEO will be retiring in the second quarter of 2025. The head of Eaton's electrical businesses, an attendee of the meeting, is one of two internal candidates to be considered to replace the CEO. We expect a formal announcement in the third quarter this year.

Reflecting on the lasting changes made at Eaton, the CEO noted that the company has a long history of "doing business right" a theme that has come out in prior ESG engagements. He also outlined Eaton's targeted leadership attributes used in hiring and promotion decisions: "being ethical, passionate, accountable, efficient, transparent, and always learning." From this foundation, his focus has been on setting high standards across the organization to redefine "good" performance. He explained that the value of such a mindset drives accountability, execution and predictability in a company that had previously been somewhat inconsistent. And while difficult to quantify, this is likely a factor in Eaton's differentiated operating results. That said, we aim to use third party workforce data to track Eaton's progress over time and through management transitions.

Nestlé (consumer staples). A coalition of Nestlé shareholders, coordinated by ShareAction—a responsible investment non-governmental organization (NGO)—filed a resolution asking Nestlé to set targets to increase the proportion of its sales derived from healthy products. During the period, we met with an IR manager and subject matter experts, the deputy head of corporate regulatory and scientific affairs, and the global head of food and industry—both scientists with responsibilities across innovation, packaging, labeling and regulation at Nestlé. Our discussion focused on the company strategy related to healthier products and the merits of ShareAction's shareholder proposal.

In September 2023, Nestlé published a nutrition strategy with the aim of growing its nutritious product portfolio (rated with a health star rating [HSR] of 3.5 and above) to $20 to $25 billion by 2030. The effort aims to guide consumers to aspire to a balanced diet, greater portion control and reduce the frequency of eating and snacking. Nestlé has found that taste, cost and convenience are the most important purchase drivers, and thereafter, nutrition. The company is now working on zone-level plans to meet the target. Management shared that research and development and strategic business units all have vested interests in achieving these goals.

According to the team, Nestlé is the only company to rollout front-of-pack labeling across its entire product portfolio and reports the nutrient profile in 13 countries.

Management is also aware of legislative risks, which can potentially present material investment risks, and is one of the few companies that has raised the age of marketing to children to 16—marketing efforts offer smaller portion sizes for kids in confectionery and ice cream.

Nestlé also aims to guide and empower people in cooking balanced meals in a convenient way and by using fewer ingredients, for example. Management wants to ensure that Nestlé's nutrition strategy aligns with the company's long-term business goals and values.

For the past two years, Nestlé has engaged with ShareAction: the NGO requested greater transparency across Nestlé's nutrition portfolio, a nutrition strategy and company-wide targets, which management believes that it has made progress in terms of greater transparency across its nutritious product portfolio, a nutrition strategy and company-wide targets.

We learned that ShareAction requested a proportional target. However, Nestlé argued that the best thing for its business is an absolute target for healthier products, rather than a proportional target, as they aim to ensure that its nutrition strategy also aligns with its long-term business goals and values. IR shared that they align with ShareAction on many topics and that nutrition has been a part of Nestlé's strategy for some time and is part of how it thinks about their product portfolio. The company communicated that it believes it has a role to play in public health. However, management believes that too much focus on individual products is not helpful: people consume an overall diet, not just individual products, and food is consumed to nourish the body as well as for

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pleasure and social occasions. Thus, Nestlé wants to grow the nutritious part of its portfolio and offer advice on the usage of indulgent products by guiding on portion sizes, frequency and how to fit them into a meal.

According to management, ShareAction also wants Nestlé to move away from sales of unhealthy products and have questioned the company's inclusion of coffee in its nutritional sales target. On the former, IR explained that Nestlé is a responsible owner and has had guidance on consumption and responsible marketing. On the latter, Nestlé's experts explained that the company's goal involves growing sales of nutritious foods including specialized nutrition products, a portion of infant nutrition, and products that meet the HSR rating of 3.5 and above. On coffee, the team explained that it is the third most frequently consumed beverage in the world and has water–it has caffeine which helps with alertness and sharpness and there's nothing negative about coffee as long as you don't drink outrageous amounts.

They explained that HSR is not designed to benchmark a company portfolio and also fails to account for micronutrient fortification—it is a front-of-pack labelling system and, according to Australia, there's no need to have single pack labelling for single ingredient products. Thus, given coffee is a single ingredient product, Nestlé has deemed it to be in the 3.5 and above bucket.

Management believes that Nestlé has industry-leading nutrition policies and initiatives and said that less than 25% of the company's product portfolio (including pet care) accounts for indulgent products. Given that the nutrition strategy was launched only six months ago, management would like a chance to show investors and consumers that it's working. Additional details regarding the roadmap to 2030 targets are expected at the company's investor day in December 2024.

On whether this will have a financial impact, IR shared that it doesn't believe this will impact Nestlé's ability to meet its 2025 financial targets. Nestlé is taking a measured approach to ensure that the plans make business sense and align with company sales targets. They believe they can provide affordable nutrition without taking a hit to margins because they have scale. They plan to make things simple with fewer but good quality ingredients. Part of the story will be premiumization. The company wants consumers to engage and give them insights into how their consumption habits and taste buds are changing. There will be no big deviation from what they already do.

The AB investment team found management to be very receptive to our engagement. In our view, Nestlé appears to be taking its long-term success alongside stakeholder concerns seriously, and we will continue to monitor the company's progress. We intend to follow up next year and look forward to understanding their roadmap.

Please refer to the following legal disclosures.