AB Concentrated US Growth Managed Portfolio

ESG Engagement Report: July 2023—December 2023

During the second half of 2023, AB portfolio managers and analysts engaged with senior management and/or boards of directors of companies held by the Concentrated US Equity Strategy. In the six-month reporting period ending December 31, 2023, we conducted 31 engagements with 17 distinct companies across a range of material ESG risks and opportunities. In this report, we highlight biodiversity risk, corporate social responsibility (CSR) disclosures and labor management.

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.

In the Appendix is a full summary of our engagements in each ESG category during the past 12 months ending December 31, 2023. Summary reports of a selection of our engagements with companies during the six-month period follow.

Example Engagements on Environmental, Social and Governance Issues

Constellation Brands (consumer staples). In our most recent engagement with a member of the investor relations (IR) team at Constellation Brands, we discussed the company's nature-related risks and mitigation approaches. Based on the biodiversity materiality matrix developed by AB's Responsibility team, Constellation Brands was flagged as a potential high biodiversity risk company given its beverage industry classification. The engagement was conducted by email and covered the company's geographic exposure to water stress, climate-related physical risks and key soft commodities with exposure to deforestation risk. Constellation Brands is an American beer, wine and spirits company.

While water stress is among the company's key agricultural inputs, it is unlikely to represent a significant material risk in the near term. That said, geographic concentration of commodities could introduce expense risk during periods of drought in the Americas. And while acute weather events are unlikely to disrupt operations, El Niño over the next two to three years should positively affect water supply in the Americas.

The risk of water stress for agricultural inputs is across commodities and the beverage industry fares better by minimizing geographic concentration of suppliers, production and customers; reducing exposure to high-water-stressed commodities (like coffee, hops and grapes); and lowering exposure to price-sensitive consumers.

The company's CDP Worldwide water report suggests a high concentration among its suppliers for hops and barley and cites a program in its Mexican beer division that is addressing such risks.

The company's wine segment, where 98% of US grapes are sourced from California, can be subject to water stress from climate and weather conditions. The company prioritizes risk in its production rather than supply chain: the proportion of grapes produced in areas with water stress is a key metric used to manage its resources and risk-mitigation approach.

In terms of water-dependent operations, water shortages are not a significant material risk: effects can be offset by holding inventory or increasing production at less stressed sites. Representing 14% of global facilities, four wineries are each responsible for five percent or greater of global wine and spirits or brewery products production. The company is prioritizing these sites for water efficiency and recycling efforts.

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

In our view, the company is not exposed to material biodiversity risks. Constellation Brands is managing exposure to the risk of unsustainable agricultural practices through its vineyards and through engagement with suppliers. With suppliers, the company encourages best practice soil management, pesticide and fertilizer minimization, and protecting native species. Additionally, Constellation Brands is not exposed to new or emerging deforestation regulations; though, in 2027, barley may become a regulated commodity in Europe.

We plan to continue monitoring the company's CDP Worldwide water reports, notably as drought periods in the Americas are predicted with La Niña in 2025–2026.

Eaton (industrials). An electrical and industrial power management company, Eaton's products and services offer customers sustainable solutions that have a material opportunity to positively impact the transition to a lower carbon economy. In our most recent engagement with management, we met with the chief sustainability officer (CSO) and members of the IR team to discuss these opportunities, the company's efforts to measure and manage climate risk, and sustainable reporting.

Management said that the greatest opportunity for real-world emissions reductions is through the company's products and services that allow customers to reduce their carbon footprint. Eaton continues to develop and market products and services that focus on "greening" the grid and re-engineering processes and systems. Eaton is also working on developing products that are more environmentally friendly, and reduce waste and water usage.

We learned that the company uses a tool that provides information on physical risks to operations and climate change transition risks and opportunities. In terms of physical risks, the tool's scenario analysis resulted in the company revising some of its business continuity practices and increased management's confidence of key assumptions around how the transition to a lower carbon economy will play out, including opportunities around electrification.

In terms of governance, Eaton's board actively participates in target setting using Science Based Targets initiative (SBTi) through a sustainability committee that is chaired by the CSO and the chairman of the board. The company is working with SBTi to reset Scope 3 emissions targets in 2025 considering new guidance on increasing global temperatures.

Based on feedback on the measurement of sustainability performance from investors like AB, management expects that it will report more quantitative measurements tied to widely recognized frameworks, which will be useful in the context of European Union taxonomy definitions (Eaton is domiciled in Ireland). We learned that the company's suite of sustainable products will likely decrease from approximately 70% to 20%.

We intend to continue monitoring the company's sustainability disclosures and emissions reduction targets and plans.

TJX Companies (consumer discretionary). As part of regular conversations with the TJX management team, in our most recent discussion, we asked for updates across a range of ESG matters.

Regarding labor management, the AB investment team asked management how it handles sizing various categories of goods when there is a high demand in multiple areas of interest, given the size constraints of TJX stores. We learned that the buyer function is aligned with the company's overall success and that the buyers' compensation structure is designed to factor in store profitability, not product-specific sales profitability. On employee turnover and competition for entry-level workers, management stated that in 2023, holiday staff was hired earlier to ensure better training ahead of the busy season, adding that it has observed some uptick in competition for entry-level employees but is satisfied with the company's ability to recruit and hire to meet staffing needs. Management noted that attrition rates remain roughly the same as prepandemic levels and are not concerning at this time.

On supply chain and carbon emissions, the company has seen some successes in driving efficiencies when shipping goods from port facilities to warehouses and stores. When we inquired how it is incorporating its carbon goals into its efficiency plans, we learned that while financial efficiency and customer satisfaction remain core company goals, management is seeing benefits in energy efforts that optimize how goods are moved.

We plan to continue monitoring the company's ESG efforts.

Please refer to the following legal disclosures.

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Appendix

Engagement Statistics* for the 12 Months Ending December 31, 2023

Details regarding AB analysts' engagements within each ESG category for the Concentrated US Growth Strategy are provided below.

Theme/Category	Engagements
Environmental	
Biodiversity & Land Use	10
Carbon Emissions	24
Climate Change Vulnerability	4
Net Zero	5
Opportunities in Clean Tech	4
Packaging Waste	3
Product Carbon Footprint	2
Resource Management	3
Supply Chain - Environmental	6
Toxic Emissions & Hazardous Waste	1
Water Management	4
Other	1
Social	
Diversity & Inclusion	18
Employee Health & Safety	10
Human Capital Development	29
Insuring Health & Demographic Risk	1
Labor Management	17
Privacy & Data Security	3
Product Safety & Quality	7
Supply Chain - Social	6
Other	2
Governance	
Board Independence	5
Board Level Diversity	12
Business Ethics	2
Combined CEO Chair	2
Crisis Management	1
Entrenched Board	5
One Share One Vote	2
Organizational Culture	12
Pay	27
Other	4

*All engagement statistics are based on the previous 12 months and reflect the absolute number of engagements with individual issuers during the period. Multiple key issues may be discussed during one engagement. The topics and amount of engagements are subject to change in the future.

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