AB MANAGED VOLATILITY EQUITIES FUND (MANAGED FUND)—MVE CLASS

Engagement Report as at 31 March 2024

During the period from 1 January 2024 to 31 March 2024, AB portfolio managers and analysts engaged with the senior management and/or boards of directors of companies held by the AB Managed Volatility Equities Fund (Managed Fund)—MVE Class on a range of subjects, including climate risk, environmental risk and corporate governance.

Our approach to capturing environmental, social and governance (ESG) considerations in the portfolio means that we incorporate ESG into our investment process to identify investment risks and opportunities. These factors are a component of our research process that help to inform whether we invest in, continue to hold or sell any particular security as they can affect a company's valuation and financial performance.

This report references a selection of our engagements with companies during the period that helped guide whether we invest in, continue to hold or sell.

ASX (G)

Result: Positive

As we engaged the Australian Stock Exchange management on their 1H24 results, we discussed the continued fallout from their CHESS replacement project failings. ASX have delivered three special reports and are in the process of recommendation implementation, the majority of which shall be complete by June 2024. They have rebuilt goodwill with customers, regulators and governments, but are cognizant that the margin for error is low. Their increased conservatism in approach to implementing new technologies mean that costs will be higher for longer.

Bendigo Bank (E)

Result: Positive

We engaged with Bendigo on their carbon emission reduction targets, which were more ambitious than their larger national peers, including not only Scope1/2 but also Scope 3 financed emissions. Management indicated that they have a number of initiatives underway to help them improve disclosure and measurement of financed emissions. They do not lend to coal, oil or gas companies, which helps their starting position, and that their top emitter is actually a scrap metal business, which contributes to carbon reduction via recycling. They are developing measurement techniques for agricultural clients and have pilot programs that will help their customers measure and calculate financed emissions. They do acknowledge though that they may need to rely on offsets on their residual emissions to meet targets.

Brambles (E, S)

Result: Positive

At the 1H24 management group meeting, we engaged management on their efforts to improve customer relationships; historically the company had relied on its market dominance and had been difficult to deal with in terms of lost pallet compensation and the scheduling of pallet deliveries and pickups. The company has developed a strong focus on improving customer and stakeholder relationships, particularly through improving digital service infrastructure, bringing more information and transparency to customer negotiations, particularly since the supply chain disruptions of COVID. We see them as taking the right steps to improve client engagement and also allowing for a rational market, of which they are prime beneficiaries. Whilst white wood/disposable pallets are declining in price with lumber prices, BXBs customers, particularly the larger ones, are focused on the sustainability of Brambles pallets and see the value there.

Computershare (S, G)

Result: Neutral

We engaged with management after their 1H24 result on business practices relating to corporate trusts and employee share plans in a number of countries. The company has full pricing power for trading fees in such employee share plans. The company has in fact increased trading fees, at odds with industry direction of travel – management plans to push through 20-30% increases, in many cases where such employee account holders, without suitable alternatives, must absorb those price increases. We have seen though that where

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customers have choice, management have been more measured in price increases.

Downer (S, G)

Result: Positive

We engaged with Downer, under management of a newly installed CEO, to discuss the outside perception of the company, and internal assessments via Glassdoor, to be an autocratically managed firm where risks are not surfaced in such a culture early enough for them to be managed effectively. We found there was appropriate acknowledgement of the issues and of past practices, and that the new CEO is driving a new agenda of engagement, accountability and productivity. We expect these changes to take time but that the leadership appears committed to making the right changes.

Insurance Australia Group (G)

Result: Neutral

Insurance Australia continues to face legal and regulatory action on two different issues, Greensill trade credit insurance and ASIC pricing transparency. We engaged management on the Greensill case, which continues to progress through courts. Management note that the complexity of the issue means it will take longer to work through. They do not anticipate a decision this year and anticipated at time of conversation in February that an outcome is likely 18 months away. Management continue to be confident in their legal position on the issue and would provide an update on the expected timeline as soon as possible.

Medibank (G)

Result: Positive

Medibank is a private sector health insurance company, where effective claims management allows them to manage price increases to improve affordability and access to healthcare. We engaged with management on the underlying reasons behind their claims levels continuing to run below their stated expectations. Management believes it is driven by 3 factors: a shift from overnight hospital care to lower cost alternative settings off the back of COVID (e.g. rehab at home) which forced these alternative factors; a reduction in respiratory illness in older age cohorts due to improved hygiene practices in aged care facilities; a mix shift in policyholder base to younger customers with lower morbidity rates and reduction in the use of more discretionary modalities due to cost of living pressures. Management see some of these changes as cyclical but also believe that some of them may be permanent. Any permanent savings will ultimately reduce the cost of health insurance and will encourage greater participation, which in turn is positive for the Australian healthcare system as a whole.

Nine Entertainment (S)

Result: Positive

Nine is a diversified Australian media company with major assets in TV and publishing. It is currently engaging with the government on a number of key policy issues. Nine has content deals in place with Google and Facebook and are currently in the process of re-negotiating the Facebook deal. Facebook's approach to the negotiation appears to place that deal at risk. However, management notes that the government is supportive of the deal and that in the event of a failed re-negotiation, there appears to be a high probability that the government may invoke the news media bargaining code to force Facebook back to the negotiating table and to ultimately force Facebook to compensate Nine for its content.

Smartgroup (S)

Result: Positive

Smartgroup is one of Australia's largest providers of salary packaging and novated leasing. Given scale they have a technology advantage over smaller competitors. SIQ management flagged growing concerns over cybersecurity for many of their customers, which include state and federal government agencies. Management has used their scale advantage in their cybersecurity capabilities to win business from smaller peers.

Sonic Health (S)

Result: Positive

We engaged management on aspects of its substantial cost out program. The majority of costs are staff-related. While management are relying mostly on natural attrition but are also undergoing targeted redundancies and have more work to do in 2H24. Collection center rationalization program is to mitigate legal risk following a judgment made against a competitor last year for anti-competitive behavior, and Sonic are identifying collection centers for their diagnostic tests that are at risk of being viewed in a similar way and plan to close them. Management is however balancing the benefits of closures from a cost perspective against market share loss.

Spark NZ (S,G)

Result: Positive

We engaged with management on likely outcomes of a change of Government in New Zealand on its business, given that the government is one of its key customers. The new government is seen as more pro-business, which would be a long-term positive, but that in the short term, they may be more careful in allocating spend for new projects, which could have a negative near-term impact on Spark's consultancy business. However, management would expect once the government has been settled that new projects will start up again, and remain positive in the medium term due to use technology solutions implemented by Spark across various government departments.

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Stockland (S)

Result: Positive

We engaged during a meeting with the SGP CEO on the subject of housing affordability. Land Lease is increasingly being seen as a key component of solving housing affordability. Older buyers are typically not using financing. For younger buyers, however, their financing needs must evolve due to the split ownership structure. Management was engaged with finance providers to look at solutions as traditional methods are not structured for this product type.

Telstra (S)

Result: Positive

Telstra is the leading Australian telecoms company, directly employing over 20,000 people. As we engaged with TLS management post their 1H24 result we sought to better understand their management of their A$500 million cost-out target. Since they set the target, cost inflation has been higher than management expectation. Telstra has just commenced EBA negotiations and are looking to optimize wage inflation outcomes within the parameters of their cost out program. As part of this initiative, Telstra are looking at how they can realize labor efficiencies through AI, for example by using Amazon Connect in call centers. This could lead to targeted redundancies and could Telstra's bargaining power in EBA negotiations.

Transurban (E,S)

Result: Positive

While customer vehicle emissions go with the customer and/or the OEM, TCL has been reporting customer emissions for some time to allow a more complete picture. EV inducement as a policy has been implemented on a road they own in Montreal, Canada, where the government reimburses Transurban. The politics of inducement are complex in some states however as EV vehicles are for now still viewed as 'luxury goods'. Construction emissions are not technically a competitive advantage when bidding for work in Australia but Transurbam highlights them as an extra component of their bid. Management has provided data to fleet owners, who buy almost half of all new cars each year, to help them understand range; around 6% of all trips in Sydney, Melbourne and Brisbane are on Transurban roads.

Westpac (S)

Result: Neutral

Changes to responsible lending legislation have made getting a credit card almost as hard as getting a home loan; we engaged with Westpac's CFO during a 1Q24 group catch up on knock-on effects that the legislation is having on consumer credit. Management believes the legislation is responsible for the rise of 'Buy Now, Pay Later' programs. The CFO also believes that one result is that the older remaining customers who maintain a drawn balance are lower quality and as such delinquencies could be higher in this cohort. New customers are higher quality and less likely to default.

Woodside (E)

Result: Negative

During Woodside's FY2023 group meeting, management updated their Scope 3 targets to include an absolute abatement target on top of their A$5 billion investment target, and also provided more details on its Scope 1 reduction strategy. Management discussed prospects for green energy investment such as green hydrogen and costs of reductions for various sources of Scope 1 emissions during gas production. Management views green hydrogen as an immature industries with little offtake opportunity but that incentives under the US IRA were substantial, even if there was no clarity on how tax credits are applied. Management provided a cost curve of solutions and said they were willing to implement reductions under $80 per ton while offsetting the rest using their offsets program. Our takeaway from the meeting was that Woodside management are not firmly committed to actual emissions reductions and has continued to demonstrate limited willingness to actually deploy capital not either emissions reductions or future clean energy business channels, preferring to deploy capital into LNG on the back of their bullish long-term forecasts for Asian gas demand.

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