

**AB AUSTRALIAN EQUITIES****AB MANAGED VOLATILITY EQUITIES FUND
(MANAGED FUND)—MVE CLASS****Market Overview**

Global equities rallied throughout the first quarter as recessionary fears ebbed and soft-landing optimism gained momentum, bolstered by tailwinds from US Federal Reserve and global central bank rate-cut hopes, a resilient US economy and the continuation of artificial intelligence (AI) enthusiasm. The stock market rally broadened later in the quarter as investors gained confidence that the Fed could rein in inflation and begin to cut rates without triggering a recession after it raised its projections for economic growth. Emerging-market (EM) stocks also benefitted from positive global market sentiment but trailed developed markets. A strong US dollar weighed on EM currencies throughout the period and a continuation of China's weak economic recovery dragged on results. During the first quarter, global equity markets, as measured by the MSCI World Index, rose 8.9% and EM equities, as measured by the MSCI EM Index, rose 2.4% (all returns in US-dollar terms).

During the first quarter, Australian stocks, as measured by the S&P/ASX 300 Index rose 5.4%, in local currency terms. Early in the quarter, S&P/ASX 300 stayed in positive territory, but in March, Australian equities rallied, lifting the index to new record highs along with other developed-market indices. Mining stocks contributed to strong performance as gold, iron-ore and lithium prices firmed. Cooler-than-expected inflation data raised hopes for rate cuts during the second half of 2024

and bolstered the performance of interest-rate sensitive sectors, including banking and real estate. As expected, the Reserve Bank of Australia maintained the cash rate at 4.35% for a third consecutive time during its monetary policy meeting in early March, but it did not caution about the possibility of additional rate raises—bolstering hope that rate cuts could begin later in the year. But despite moderating inflation and rate-cut optimism, higher interest rates weighed on consumer sentiment, which fell amid rising concerns about Australia's economic outlook and family finances. Although the jobs market remains strong, wage growth is slowing and rising housing expenses, including rent and utilities, continue to put upward pressure on household expenses.

During the first quarter, overall sector performance within the S&P/ASX 300 was mostly positive, with materials the only negative sector. The technology and real estate sectors led outperformance, while the communication-services sector rose in absolute terms but underperformed on a relative basis.

MVE Class Performance

The MVE Class was up for the quarter but underperformed its benchmark, before fees. The communication-services and financials sectors detracted the most from relative performance, while materials and healthcare contributed.

Diagnostic company Sonic Healthcare underperformed as investors were disappointed by a half-year earnings miss. While the company delivered an in-line operational result, higher-than-expected depreciation and amortization expenses, finance costs, and tax drove lower-than-expected net profits. We continue to like Sonic Healthcare for its strong balance sheet and stable cash flows and believe there is potential for medium-term earnings upside from inorganic growth.

An underweight to Wesfarmers detracted from relative results as the conglomerate outperformed the market. Wesfarmers reported 1H earnings with discount department store brands of Kmart and Target materially beating market expectations and provided positive forward-looking commentary.

Woolworths underperformed on its year-to-date sales numbers in February. We see this small sample size as being misleading, as the prior comparable period was artificially strong with the company running a successful promotion and key competitor Coles suffering supply issues in key lines.

A lack of exposure to BHP contributed to performance. The mining company underperformed as iron ore traded down 29% on increasing concerns of softer demand.

Novo Nordisk, a diversified pharmaceutical company based in Switzerland, contributed to performance as uptake expectations for its weight-loss drug continued to be strong.

Pallet company Brambles outperformed as pricing indicators appeared stronger than expected.

Positioning and Outlook

During the quarter, we initiated a position in Wesfarmers for discretionary retail exposure. The company believes the improved profitability of Kmart is structural—leading to solid upgrades to expected earnings.

We added to our position in CSL following a period of underperformance triggered by the realisation of negative catalysts that kept us more materially underweight. As the leading player in plasma-derived

therapeutics, CSL is a key beneficiary of positive industry trends, including strong growth in plasma collection volumes and donor fee cost deflation. While competitive threats are starting to emerge in its core immunoglobulin franchise, increasing penetration in existing indications and growth in new indications should more than offset any near-term headwinds.

We added to our shares of telecom software provider Amdocs, attracted by its strong cash flow and steady earnings growth profile.

We sold our shares of National Australia Bank after a strong run of performance.

We exited our position in Switzerland-based diversified pharmaceutical company Novartis after a strong run of performance as we saw better risk-adjusted opportunities elsewhere.

We sold shares in Evolution Mining and consolidated our gold holdings into Newmont Mining and Northern Star Resources, which have lower-risk production outlooks.

More broadly, risks we have long been concerned about such as inflation, rising rates, asset bubbles, and major economic and geopolitical tension are all currently unfolding, with Australian markets seemingly unconcerned. It is not clear that this optimism will be rewarded. We maintain our focus on diversifying risks, and are particularly focused on the ability of companies to offset inflationary pressures with pricing power. We aim to use fundamental insight to reduce our exposure to stocks with cyclical pressure, balance-sheet stress or negative events.

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