



# AB Sustainable Global Thematic Equities Fund

## ESG Engagement Report

During the six-month period ending on June 30, 2025 AB portfolio managers and analysts engaged with senior management and/or boards of directors of 25 distinct companies held by Sustainable Global Thematic in 26 engagements on a range of material ESG risks and opportunities. In this report, we highlight executive management issues, risk disclosures and decarbonization.

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 June 30, 2025. Summary reports of a selection of our engagements with companies during the six-month period follow.

## ESG Engagement Summary

**Arista Networks** (information technology). We recently engaged with Arista Networks to discuss a range of material ESG topics with a particular focus on human capital development, organizational structure and executive compensation. Arista is a technology company specializing in cloud networking solutions with award-winning platforms that deliver agility, automation, security and other services through an advanced network operating stack.

During the engagement, we asked the company about reports that top talent is leaving. They pushed back on the narrative emphasizing that it is not occurring in reality. Rather, they noted that their previous organization structure was antiquated and required a refresh in order to remain competitive.

Management emphasized that no top engineers have left and that talent retention is strong. Recent organizational changes include the retirement of the CFO, replaced by an external hire, and the elevation of the co-founder to CTO now overseeing both software and engineering. The COO and CPO roles were not directly replaced but instead restructured to reflect a more federated model. The AB team recommended that Arista actively communicate its narrative regarding talent retention.

Regarding executive compensation, Arista has shifted its pay plan to emphasize revenue and income growth over margins, introducing new three-year strategic goals focused on enterprise, cloud and AI diversification. The company removed multiyear gross margin goals due to their impact on internal investment and the divergent margin profiles across products. The AB Investment team learned that R&D investment had declined as a percentage of sales, prompting concern. However, Arista is now leaning into stock-based compensation and increasing hiring in sales and R&D, including sales leaders from major external firms.

While the AB team expressed concerns about the removal of margin goals and the potential impact on internal investment, the company's responses and strategic shifts were generally viewed as credible. No follow-up actions were deemed necessary by the AB team, though we plan to continue monitoring these and other material ESG issues at the firm.

**Flex** (industrials). During the period members of AB's Investing teams met with management from Flex, including the Global Head of Sustainability and a member of the Investor Relations team. Flex is a global manufacturing and supply chain solutions provider domiciled in Singapore with an operations headquarters in Austin, Texas.

Flex has been identified as a high impact issuer under AB's proprietary Climate Transition Alignment Framework. This means that the company has been identified as particularly exposed to material risks and opportunities associated with the transition to a lower-carbon economy compared to non-high-impact issuers. This engagement was conducted as a result of

that assessment and to encourage the company to mitigate the material risks associated with Scope 1, 2 and 3 emissions as well as take advantage of the opportunities in low-carbon solutions.

Regarding Scope 1 and 2 emissions, the AB team noted that Flex had achieved a 33% reduction and was on track to meet its 2030 targets by 2025. Despite being well on its way, the company explained that growth in data center operations may limit early achievement. Management noted that the company is having some challenges in Mexico and other markets where reducing emissions means working with governments and policymakers over the medium to long term to green the grid-available power sources. We view the company's growth in data center operations positively and maintain confidence in its climate strategy to address the associated material risks. We concluded our conversation on Scope 1 and 2 emissions by encouraging the company to disclose a quantified plan for achieving its emissions-reduction targets.

Concerning Scope 3 emissions, the AB team asked about the company's progress toward its Science Based Targets Initiative (SBTi) validated target. This target is defined as 70% of its customers (by emissions) adopting science-based targets by 2025. The AB team requested clarification on the percentage of Scope 3 emissions covered by this target, its impact on customer relationships and future plans for supply chain-focused Scope 3 targets. Flex reported that it had achieved approximately 80% of its Scope 3 customer target and expected to meet it by year-end. Management noted that the initiative created an additional opportunity in the form of stronger customer collaboration regarding the design and use of its products. Lastly, the company explained that it is considering a new supply chain-focused Scope 3 target once its current target is achieved. The AB team encouraged the company to continue to focus on its most material Scope 3 emissions, and management was open to the recommendation.

Regarding opportunities in low-carbon solutions, the company noted in its 2023 CDP Report that low-carbon products comprised just over 5% of its revenues, according to the climate bond taxonomy. In the report, the company highlights that it also plans to identify spending aligned with its climate transition plan in the next two years. When the AB team asked about its plans to grow revenues from low-carbon products and services, management provided the example of refurbishment services, which can reduce product carbon footprint by 90%

compared to manufacturing new products. They also noted these services have the added benefit of strengthening customer relationships.

We intend to follow up with the company about its disclosure of a quantified plan toward achieving Scope 1, 2, and 3 emissions goals, as well as greater disclosure about revenues and expenditures associated with its climate strategy.

**Monolithic Power Systems** (energy). During the period, we met with the CFO and general counsel of Monolithic Power Systems (MPS). We set the meeting to discuss key proxy ballot items ahead of the company's Annual General Meeting (AGM). Specifically, this engagement addressed three material governance issues: executive pay, board entrenchment and the right to call special meetings. These issues are significant as they directly impact shareholder rights, board accountability and the alignment of executive incentives with shareholder interests.

On executive compensation, we inquired about the company's peer benchmarking practices, particularly in light of the total awardable pay to the CEO being relatively high. MPS clarified that while the CEO's base salary is targeted to fall within the 25th percentile, equity compensation targets the 90th percentile, reflecting a philosophy of maximizing at-risk pay to better align with shareholder outcomes. We view this approach positively.

Regarding the short-term incentive plan (STIP), the AB teams questioned the rationale for lowering the operating income hurdle (the sole KPI underpinning the STIP), which was subsequently achieved near maximum performance. MPS cited market volatility as justification. We did not consider this to be a particularly compelling rationale from a governance perspective; however, the overall pay outcomes were deemed reasonable. We will continue to monitor goal rigor moving forward.

Following our discussion of executive compensation, we shifted to the right to call special meetings, in the context of the company receiving a shareholder proposal to reduce the share ownership threshold required to call a special meeting from 30% to 10% of outstanding shares. When asked, MPS explained that a peer benchmarking exercise informed its current 30% threshold, and shared the perspective that this threshold aligns with market practice and shareholder

feedback, and that a 10% threshold would pose undue risk given the company's size. In acknowledgement of the company's rationale and analysis, AB voted against the shareholder proposal advocating for a lower threshold.

Finally, regarding board declassification, MPS is implementing a phased approach through 2030 following the passage of a shareholder proposal last year. The AB teams expressed a view that while this timeline is unnecessarily long, they support the shift to annual director elections.

We intend to continue monitoring these and other material ESG risks and opportunities facing the company.

**Prysmian Group** (industrials). In March of 2025 we responded to a request from management at Prysmian Group to meet ahead of the AGM. The engagement focused on the material implications of the recent acquisition of Encore Wire, particularly in relation to compensation structures, employee health and safety, and strategic positioning in the US market. Headquartered in Milan, Italy, Prysmian is a global leader in the energy and telecom cable systems industry.

We began the engagement by discussing executive compensation, noting that the company has long maintained a transparent and disciplined approach in this area. The company's total target compensation remains 22% below the peer median, and no significant changes to benchmarking are expected beyond organic growth in the US. In the context of a recent safety incident, we supported the inclusion of a more measurable health and safety KPI in the CEO's annual bonus, which the company implemented at the April AGM with the addition of severity rate. Both the STIP and long-term incentive plan penalize fatalities by zeroing out the entire scorecard,

which occurred in FY 2024—the CEO's compensation that was linked to safety performance was not granted, because the company treats fatalities as an overriding factor. We view this positively because it holds management accountable for significant failures. Overall, the company reiterated that employee health and safety remains a priority, with the company enhancing training programs, especially for forklift operators, and elevating Encore's head of health and safety to lead US operations. The company's use of unannounced audits and improved data tracking demonstrates a commitment to a culture of safety.

The acquisition of Encore Wire has necessitated re-baselining of certain ESG KPIs due to Encore Wire's dilutive impact. These adjustments are considered reasonable and maintain the rigor of the targets. We found the proposed changes to be thoughtful and aligned with best practices, properly managing material risks and opportunities associated with the acquisition.

Finally, we addressed geopolitical uncertainty in the US as 23 of the company's 110 plants are located in that country. Prysmian highlighted its risk-mitigation strategies, including procurement from EU neighbors and differentiated contract structures in the US and EU. They explained that while there is significant uncertainty in the US around tariffs and pricing, Prysmian is in a better position relative to its peers, and management anticipates an advantage once the market stabilizes.

We plan to continue engagement with the company on these and other material ESG topics.

Please refer to the following legal disclosures.

## Appendix

### Engagement Statistics<sup>1</sup> for the 12 months ending June 30, 2025

Details regarding AB analysts' engagements within each ESG category for Sustainable Global Thematic are provided below.

Theme/Category	Engagements
<b>Environmental</b>	
Biodiversity & Land Use	1
Carbon Emissions	20
Climate Change Vulnerability	2
Climate Transition Plans	6
Electronic Waste	1
Opportunities in Clean Tech	9
Opportunities in Renewable Energy	6
Packaging Waste	2
Product Carbon Footprint	6
Resource Management	3
Supply Chain - Environmental	3
Toxic Emissions & Hazardous Waste	3
Water Management	1
Other	5

<b>Social</b>	
Diversity & Inclusion	15
Employee Health & Safety	6
Human Capital Development	30
Insuring Health & Demographic Risk	3
Labor Management	8
Modern Slavery	1
Opportunities in Financial Inclusion	1
Opportunities in Healthcare	6
Opportunities in Nutrition & Healthier Products	2
Privacy & Data Security	13
Product Safety & Quality	10
Responsible Investment	2
Stakeholder Engagement	3
Supply Chain - Social	4
Other	8
<b>Governance</b>	
Accounting	2
Board Composition	7
Board Independence	8
Business Ethics	5
Combined CEO Chair	5
Corruption & Instability	1
Crisis Management	2
Entrenched Board	8
International Norms (UNGC, etc)	1
Organizational Culture	21
Pay	23
Right to Call Special Meetings	2
Other	15

<sup>1</sup>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.

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

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