ALLIANCEBERNSTEIN

Q&A—AB Financial Credit Portfolio

Exceeding Expectations in the First Three years

This document discusses investing in complex instruments and is for the exclusive use of sophisticated investment professionals and existing investors only. It is not for wider circulation to or for inspection by retail investors.

Investing in banks' subordinated debt such as Additional Tier 1 (also known as CoCos[1]) has entered the mainstream—but it comes with some specific risks. AllianceBernstein's (AB's) Financial Credit Portfolio (the Fund) has outperformed its benchmark, as well as other relevant indices and peers in this relatively complex asset class. Portfolio Managers **Jørgen Kjærsgaard** and **Steve Hussey** and Quantitative Research Analyst **Sahil Khan** discuss the unique characteristics that have helped the Fund capture the most upside risk while avoiding the pitfalls during its first three years.

Jørgen Kjærsgaard
Senior Vice President, Co-Head—European Fixed Income; Director—European and Global Credit
+ 27 Years' Experience

Steve Hussey
Senior Vice President, Head—Financial Institutions Credit Research
+ 27 Years' Experience

Sahil Khan
Quantitative Analyst—Fixed Income
+ 12 Years' Experience

As of 31 May 2021

Q. How has the Fund performed since its inception?

Steve Hussey (SH): In its first three years, the Fund returned 31.9% cumulative net of fees.[2] This compared to a three-month LIBOR benchmark return of 5.2%.

The Fund also finished ahead of the three most relevant indexes: the Bloomberg Barclays Global CoCo Financial Institutions Index—US dollar-hedged (which returned 28.6%); the Bloomberg Barclays AT1 Index—US–dollar–hedged (29.1%); and the Bank of America Merrill Lynch Contingent Capital Index (26.0%). Over the same period, the Fund outperformed notable names with similar funds such as PIMCO (23.2%), Algebris (30.4%) and BlueBay (31.0%).[3] So Fund performance in both absolute and relative terms has been outstanding. It's a measure of the Fund's very high returns that, in the wide-ranging Morningstar EAA Fund Other Bond category comprising 604 bond funds with a three-year track record, the Fund ranked number two over this period. (The number one fund invested principally in Greek government and other Greek bonds, illustrating the very extensive range of mandates in this peer group.)

Q. What has made the Fund so successful—and is that success repeatable?

Jørgen Kjærsgaard (JK): First, we select from a global opportunity set across all financials and across each issuer's capital structure. That enables us to capture opportunities wherever and however they arise. For instance, in the first three years, a large part of the Fund's performance has come from European AT1s, but we have also been able to add value through investing in US preference shares, emerging market AT1s, and insurance and bank Tier 2 debt.

Second, we have a highly experienced global team with a long track record of investing in legacy Tier 1 (since the late 1990s) and AT1s (since they were first issued in 2013), and we have a dedicated group within our fixed-income team focused on financials. This includes four specialist traders and one quantitative analyst, plus four financial credit analysts based in New York, London and Hong Kong. Their local expertise is vital for us to fully understand the range of global opportunities.

Although the complexity of AT1s provides a great opportunity to add

1 AT1 securities are designed to provide an additional capital buffer to improve banks' solvency. These bonds are a category of Contingent Convertibles (CoCos)—a more complex type of bond which converts to equity or is written down should a pre-specified trigger event occur. The risk of investing in these types of instruments is that the holders of CoCos will suffer losses ahead of other equity investors and may not receive the return of their investment. The generic term "AT1s" is generally used to refer to CoCos that are classified as Additional Tier 1 capital under the Basel III rules. "Legacy Tier 1" was the forerunner of the current AT1/CoCos, generally issued between the late-1990s and 2013, and predated the implementation of the Basel III rules. "Tier 2" capital is designated as the second or supplementary layer of a bank's capital and consists of subordinated term debt and certain reserves.

2 Returns quoted are for the S1 share class LU1808993833 for the period 14 May 2018 through 17 May 2021. Source for Fund and benchmark returns: Bloomberg

3 Funds quoted are the PIMCO Capital Securities Fund, Algebris Financial Credit Fund and BlueBay Financial Capital Bond Fund. For full details of the complete peer group performance, please see performance table on page 5 of this document Source: Bloomberg value, it takes real experience and insight to assess each security comprehensively. It's the quality of our team that gives me confidence that we have done our due diligence thoroughly, that we know the credits inside out and that we have spotted any red flags or warning signs when they appear.

Third, we focus on taking concentrated positions in high-quality issuers. This Fund is intrinsically a higher-risk strategy, and that's why we've been able to generate great returns. We generally concentrate on higher-quality names because we believe they offer the most consistent pay-offs, although we do buy smaller, secondary names when relative value looks compelling. Nevertheless, these still need to offer robust capital buffers against loss, and so we generally avoid the much smaller, fragile CCC-rated names.

And fourth, because we have high confidence in our analysis and price targets, we have run with a fairly concentrated portfolio and have been quite nimble in terms of entering and exiting positions. This dynamic approach has been a key driver of consistent performance during the extremes of the pre- and post-pandemic environment (*Display, below*). AB's proprietary trading technology (ALFA) has also been important in helping us source liquidity and trade efficiently.

AB currently holds around **US$5 billion** of AT1s across all its fixed income portfolios globally and holds **US$7 billion** in total in subordinated financials comprising US preference shares and legacy Tier 1 as well as AT1s.

As of 31 May 2021

Fifth and last, we apply both in-depth fundamental and quantitative (quant) research—an approach we call "dual advocacy." We then apportion relatively higher weightings to what we consider the best structure and currency bond for each issuer. Including a security in the portfolio is the result of extensive daily discussion between me and the broader PM team, Steve (and his global team of fundamental analysts) and Sahil, with input from our dedicated financial traders globally. Given the complexity of AT1s, we have developed a dedicated quant AT1 model that allows us to determine relative value across and within AT1 issuers, and this gives us valuable insights into the overall tone of the AT1 market.

Since the inception of the Fund, we still have the same team and the same process, and our trading technology is constantly improving, so we have high conviction that we can repeat our success consistently in future.

AB Financial Credit Portfolio: Historical Top 10 Issuers

Dynamic Security Selection Based on Relative Value

30 June 2018	31 December 2018	30 June 2019	31 December 2019	30 June 2020	31 December 2020
ERSTE	RABO	UBS	UBS	UBS	HSBC
UBS	HSBC	HSBC	CS	CS	UBS
NORDEA	CS	CS	KBC	ING	CS
StanChar	ING	SVENSKA	HSBC	StanChar	INTESA
DANSKE	DNB	RABO	ABN	HSBC	UNICREDIT
BBVA	BBVA	BBVA	NATIONWIDE	NORDEA	DB
HSBC	UBS	Cred Ag	LLOYDS	ERSTE	KBC
ING	DANSKE	KBC	SANTANDER	DNB	ERSTE
SANTANDER	LLYODS	ING	RABO	SocGen	RABO
ABN	Cred Ag	LLYODS	BNP	INTESA	BARCLAYS

Historical analysis does not guarantee future results.

The colour is used to group the issuers by country. References to specific securities are presented to illustrate the application of our investment philosophy only and are not to be considered recommendations by AB. The specific securities identified and described do not represent all of the securities purchased, sold or recommended for the Fund, and it should not be assumed that investments in the securities identified were or will be profitable

As of 31 December 2020

Source: AB

Fixed-Income Global Resources

8 Economists

28 Credit Researchers

9 Structured Assets Researchers

21 Traders

45 Portfolio Managers

28 Average years in the industry

17 Average years with AB

As of 31 May 2021

Why is quant particularly valuable for AT1s?

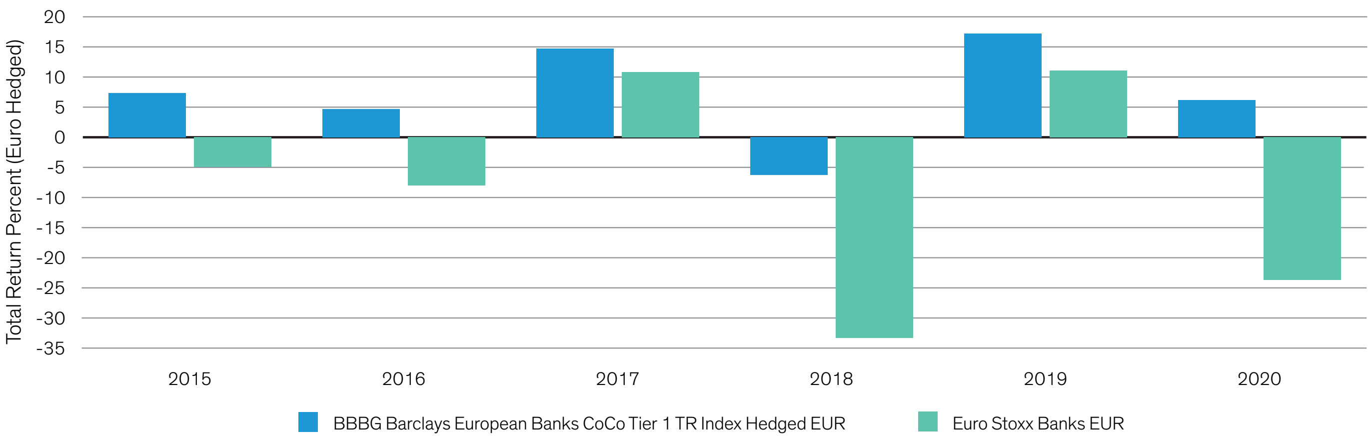
Sahil Khan (SK): AT1s are complex securities with credit, equity and volatility features that mean they can behave in very different ways depending on market conditions. It is therefore vital to understand how to appropriately price the different features and determine a fair value for these instruments and attribute what is driving their performance. Our model allows us to create surfaces that price these instruments across moves in spreads, equity and volatility, and therefore far better identify how the various types of negative convexity affect these assets. But even the best quant model has limitations. Each issuing bank is different, and each AT1 issue may have very specific features that can make a difference to its fair value. That's why we need our fundamental analysts to research the small print in the terms of each bond, and to understand the nuances of accounting and regulation across different countries. The dual advocacy approach is key to our fixed-income process generally and is especially important in the financials sector.

Q. How does the fund fit within asset allocation?

JK: We believe that the Fund provides a compelling risk-return opportunity when viewed against both bank equities and corporate high yield, and that investors will continue to be well-compensated for the risks involved in this relatively complex asset class. We think AT1 securities have the return-generating properties of equity over the longer term, but with a more stable return pattern. Within the financial sector, they can be a good diversifier from existing holdings in banks' stocks and a means of de-risking equity exposure. The benefits include lower volatility (6%–8% versus 25% for AT1s and banks' stocks respectively[4]), shallower drawdowns, steady cash flow and potentially higher returns. In fact, since the launch of the AT1 market, those securities have massively outperformed bank equity on a cumulative basis. From May 2014 through May 2021, AT1s returned a positive 54.6% cumulative versus bank equities' negative –35.8%[5]—a startling difference (Display, below). By comparison, the equivalent total return of the global high yield index was 27.5%. Of course, recent AT1 performance has benefited from a favourable backdrop, and we are currently seeing a revival in banks' equity prices too. While we expect European banks' equities to continue to rise in the near term as dividends/share buybacks are switched back on, and as analysts upgrade earnings estimates to reflect rising inflation/rates, we believe that banks' profitability will remain at or below their cost of equity given longer-term structural impediments within the sector. This relatively low profitability (dividend production) has driven the underperformance of banks' equity over the last few years. On the other hand, bank bonds, including AT1s, have performed well due to banks' stronger and more liquid balance sheets with higher capital and better asset quality. So long as these improvements are maintained, the risks for AT1 investors of reductions in coupons or loss of capital are greatly reduced. AT1s also represent an alternative to high-yield corporates, without sacrificing yields. In fact, our portfolio is mainly split between BBB investment-grade and BB high-yield issues, but with yields that are more akin to lower-quality B- and CCC-type high-yield corporate issuers.

AT1 Captured All the Equity Upside

And Limited Setbacks or Performed Positively on the Downside



Historical analyses do not guarantee future returns.

As of 31 December 2020

Source: Bloomberg Barclays

4 Volatility since the launch of Bloomberg Barclays European Banks AT1 Index through 31 April 2021.

5 Cumulative returns since the launch of Bloomberg Barclays European Banks AT1 Index through 31 April 2021.

AT1s represented by Bloomberg Barclays European Banks CoCo Tier 1 Total Return Index Hedged EUR; bank equity represented by the Euro STOXX Banks Price EUR. High yield represented by Bloomberg Barclays Global High Yield Total Return Index (hedged in EUR). All data for the period from 30 May 2014 – 31 April 2021.

Fund Facts

Investment Strategy

+ The Fund seeks to maximize total returns through current income and capital appreciation by investing primarily in the financial credit sector globally

Inception Date:

+ 14 May 2018

Benchmark

+ Three-month LIBOR

Peer Group

+ Morningstar:
  EAA Fund Other Bond

Base Currency

+ USD (EUR, CHF and GBP hedged share classes are available)

Focused on Financial Credit

+ The Fund invests in financial credits issued by banks, insurance companies and finance companies
+ Sector:
  Minimum 80% in financials
+ Equity only permitted through AT1 conversion or equity derivatives for tactical investment

Global Approach

+ The Fund can invest globally across an issuer's capital structure, including senior and subordinated debt and CoCos, aiming to capture mispriced risk and relative value opportunities between different issuers and issues worldwide. It focuses on subordinated debt, including AT1s, CoCos and US preferred shares

Dynamically Managed

+ Expected range in CoCo/AT1:
  50%–70%

Emphasis on Higher-Quality Names

+ Credit Quality:
  Maximum 10% in instruments rated Caa1 by Moody's, CCC+ by S&P, or CCC by Fitch, or below, at time of purchase

Other Risk Controls

+ Issuer:
  Maximum 10% (excluding government)
+ Duration:
  Between three and seven years
+ Currency:
  Maximum 10% foreign exchange exposure

Portfolio characteristics are subject to change. We do not show the entirety of the Fund's investment guidelines. Internal investment guidelines are not shown in the prospectus and are therefore subject to change without notification. As of 30 May 2021. Source: AB

Jørgen Kjærsgaard

Jørgen Kjærsgaard is Senior Vice President, Co-Head of European Fixed Income and Director of European and Global Credit. Prior to joining AB in 2007, he was executive director for structured credit solutions at Rabobank.

Steve Hussey

Steve Hussey is a Senior Vice President and Head of Financial Institutions Credit Research globally. He is also responsible for analyzing European banks and investment banks within this group. Before joining the firm in 2000, Hussey spent six years at credit rating agency Fitch IBCA, where he was a director responsible for the Spanish and Latin American banking sectors.

Sahil Khan

Sahil Khan is a Quantitative Analyst on AB's Fixed Income Investments team. Prior to joining the firm in 2015, he ran the quant team at ECM Asset Management, a boutique European credit manager. Khan started his career at Baring Asset Management, where he conducted quant analysis for the fixed-income team and emerging market equities.

Fund Performance versus Benchmark and Peers with Equivalent Mandates Focused on Subordinated Financials
(Cumulative Three-Year and Calendar Periods)

		Cumulative Return Inception to 17 May 2021	Calendar Year Return 2020	Calendar Year Return 2019	Cumulative return 1 January 2018 to 14 May 2108
AB Financial Credit Portfolio - S1 Share class	LU1808993833	**31.9**	**8.6**	**22.1**	**-3.7**
Benchmark: Three-Month LIBOR		5.2	1.0	2.54	1.3
BB Global COCO Tier 1 Index (USD HEDGED)	H30944US	28.6	7.5	20.4	-3.2
BB European AT1 Index (USD HEDGED)	H31415US	29.1	7.9	20.9	-3.7
BAML COCO index	COCO	26.0	10.2	17.4	-4.9
PIMCO Capital Securities Fund	IE00B6VH4D24	23.2	6.3	17.4	-4.0
Algebris Financial Credit Fund	IE00BK017B22	30.4	12.9	19.3	-5.3
GAM Star Credit Opportunities Fund	IE00BDT87D79	17.2	4.1	16.9	-5.6
Invesco AT1 ETF	AT1 LN Equity	N/A	8.8	18.1	N/A
Bluebay Financial Capital Bond Fund	LU1720194635	31.0	12.4	21.8	-7.6
SwissCanto CoCo Bond Fund	LU0899937410	24.7	3.6	22.2	-3.9
CS Coco fund USD	LU2001707251	N/A	6.1	N/A	N/A
Jupiter Financial Contingent Capital Fund (ex-OM, ex-Merian)	IE00BF47CX89	31.4	9.2	23.8	-5.2
Goldman Sachs CoCos & Capital Securities	LU1057459742	N/A	N/A	16.0	-1.6
Edmond de Rothschild Financial Bond Fund	FR0011781210	17.0	4.6	13.6	-2.7
Robeco Financial Institutions Bonds	LU1117477098	18.9	4.4	15.2	-1.5
Fonditalia Financial Credit Bond (Fideuram AM/ Algebris)	FOFICBS LX Equity	16.0	7.9	14.0	-6.8
Lyxor Wells Capital Financial Credit Fund	IE00BZ1N8H52	N/A	4.9	13.9	N/A
Wisdom Tree AT1 ETF	IE00BFNNN012	N/A	7.8	18.6	N/A

Source: Bloomberg. As at 17 May 2021.

Fund Performance v Benchmark
Complete 12 month returns %

	06/16 –05/17	06/17 –05/18	06/18 –05/19	06/19 –05/20	06/20 –05/21
AB Financial Credit Portfolio - S1 Share class (USD)	–	–	**7.2**	**6.1**	**19.9**
Benchmark: Three-Month LIBOR	0.8	1.5	2.5	2.2	0.3
Relative Returns	–	–	4.6	3.9	19.7

Past performance does not guarantee future results.

Performance data is shown for the stated share class. The Fund uses the Benchmark shown for comparison purposes only. The Fund is actively managed and the Investment Manager is not constrained by its Benchmark when implementing the Fund's investment strategy.

Performance data is provided in the share class currency and includes the change in net asset value and the reinvestment of any distributions paid on the Fund shares for the period shown. Performance data are net of management fees, but do not reflect sales charges or the effect of taxes. Returns for other share classes will vary due to different charges and expenses. Inception date: AB Financial Credit Portfolio – 14 May 2018.

Source: Bloomberg and AB. As at 31 May 2021.

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INVESTMENT RISKS TO CONSIDER

The value of an investment can go down as well as up and investors may not get back the full amount they invested. Capital is at risk. Past performance does not guarantee future results.

Some of the principal risks of investing in the Portfolio include:

Emerging-Markets Risk: Where the Portfolio invests in emerging markets, these assets are generally smaller and more sensitive to economic and political factors, and may be less easily traded, which could cause a loss to the Portfolio.
Focused Portfolio Risk: Investing in a limited number of issuers, industries, sectors or countries may subject the Portfolio to greater volatility than one invested in a larger or more diverse array of securities.
Allocation Risk: The risk that the allocation of investments between growth and value companies may have a more significant effect on the Portfolio's Net Asset Value (NAV) when one of these strategies is not performing as well as the other. In addition, the transaction costs of rebalancing the investments may, over time, be significant.
Smaller Capitalization Companies Risk: Investment in securities of companies with relatively small market capitalizations may be subject to more abrupt or erratic market movements because the securities are typically traded in lower volume and are subject to greater business risk.
Derivatives Risk: The Portfolio may include financial derivative instruments. These may be used to obtain, increase or reduce exposure to underlying assets and may create gearing; their use may result in greater fluctuations of the net asset value.
OTC Derivatives Counterparty Risk: Transactions in over-the-counter (OTC) derivatives markets may have generally less governmental regulation and supervision than transactions entered into on organized exchanges. These will be subject to the risk that its direct counterparty will not perform its obligations and that the Portfolio will sustain losses.
Equity Securities Risk: The value of equity investments may fluctuate in response to the activities and results of individual companies or because of market and economic conditions. These investments may decline over short- or long-term periods.
Lower-Rated and Unrated Instruments Risk: These securities are subject to a greater risk of loss of capital and interest, and are usually less liquid and more volatile. Some investments may be in high-yielding fixed-income securities, so the risk of depreciation and capital losses may be unavoidable.
Sovereign Debt Obligations Risk: The risk that government-issued debt obligations will be exposed to direct or indirect consequences of political, social and economic changes in various countries. Political changes or the economic status of a country may impact the willingness or ability of a government to honour its payment obligations.
Corporate Debt Obligations Risk: The risk that a particular issuer may not fulfill its payment and other obligations. In addition, an issuer may experience adverse changes to its financial position or a decrease in its credit rating resulting in increased debt obligation price volatility and negative liquidity. There may also be a higher risk of default.
Contingent convertible bonds' (CoCos) Risk: In addition to those risks generally associated with debt securities, including subordinated debt securities and hybrid debt securities, CoCos are subject to certain additional risks on the occurrence of a pre-determined event resulting in conversion to an issuer's equity or write-down of principal.

These and other risks are described in the Portfolio's Prospectus and Key Investor Information Document (KIID).

The Portfolio is meant as a vehicle for diversification and does not represent a complete investment program. Prospective investors should read the Prospectus carefully and discuss risks and the Portfolio's fees and charges with their financial advisor to determine if the investment is appropriate for them.

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References to specific securities are presented to illustrate the application of our investment philosophy only and are not to be considered recommendations by AB. The specific securities identified and described do not represent all of the securities purchased, sold or recommended for the Portfolio, and it should not be assumed that investments in the securities identified were or will be profitable.

The AB Financial Credit Portfolio is a portfolio of AB SICAV I, an open-ended investment company with variable capital (société d'investissement à capital variable) incorporated under the laws of the Grand Duchy of Luxembourg.

The sale of AB funds may be restricted or subject to adverse tax consequences in certain jurisdictions. This financial promotion is directed solely at persons in jurisdictions where the funds and relevant share class are registered or who may otherwise lawfully receive it. Before investing, investors should review the Fund's full Prospectus, together with the Fund's KIID and the most recent financial statements. Copies of these documents, including the latest annual report and, if issued thereafter, the latest semi-annual report, may be obtained free of charge from AllianceBernstein (Luxembourg) S.à r.l. by visiting www.alliancebernstein.com, or in printed form by contacting the local distributor in the jurisdictions in which the funds are authorised for distribution.

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