ALLIANCEBERNSTEIN

Monthly Commentary **Aug** 2021

AB AMERICAN GROWTH PORTFOLIO

MARKET REVIEW

Growth stocks continued to gain ground versus value stocks in August and surpassed the value index in terms of year-to-date performance. The Russell 1000 Growth Index gained 3.7% during August and is up 20.9% for the year to date (all returns in US-dollar terms.) Class A shares of the AB American Growth Portfolio increased in absolute terms but underperformed their Benchmark, the Russell 1000 Growth, for the month, net of fees[*]. Year to date, shares of the Portfolio remain ahead of the Benchmark's positive returns.

Long-term interest rates fluctuated after July's decline, ending with the 10-year rate retracing modestly higher to 1.31%, which sits well below this spring's peaks. The increase in coronavirus delta variant cases has dampened investor psychology as the economic recovery encounters supply shortages—especially labor shortages. Nonetheless, the Fed has signaled it will begin tapering by year-end given the progress in the economy.

In response to the COVID-19 crisis, aggressive monetary and fiscal policy quickly addressed demand shocks, such that supply constraints are now the preeminent challenge on the economic landscape. Fed tapering would recognize its achievement in quickly addressing demand issues, but it would also concede that the risks to balancing price stability have moved away from deflation and toward inflation. More companies are taking noticeable price actions in response to supply constraints, but margin concerns continue to grow broadly, which portends a rise in earnings variability. The tapering reduction of the Fed's current monthly pace of purchases—US$80 billion of US Treasuries and US$40 billion of mortgages—in the face of continued inflation reads could contribute to a pick-up in volatility across rates and several other asset markets. A more volatile profit backdrop would certainly reward companies that exhibit persistent profitability. If we enter a period that demands higher-equity discount rates, more reasonably valued stocks may also shine relative to long-duration stocks. By design, we manage these characteristics at the portfolio level to provide superior risk-adjusted returns.

Our Portfolio always represents our best operating plan, and, in periods of downside volatility, we strive to be the marginal buyer of companies that exhibit high levels of profitability and ample opportunity to reinvest to drive future growth. These high-quality business models promise more persistent fundamental and investment performance and will, in our view, be well equipped to navigate the challenges that present themselves as we progress through the second half of 2021 and beyond.

XILINX: A VALUABLE ASSET ON THE SIDELINES

Xilinx, a leader in programmable semiconductors called field programmable gate arrays (FPGAs), has been awaiting regulators to approve its acquisition by Advanced Micro Devices (AMD). The acquisition was agreed upon at the end of October 2020 for a premium approaching 30%. Today, the stock offer still offers 24% upside to Xilinx's price and that premium briefly exceeded a staggering 40% in early August. We do not think merger arbitragers have been aggressively exploiting the offer spread, which helps explain the decoupling of Xilinx from AMD price performance. Normally, when deal prospects are dashed, the target goes down and the acquisition stock appreciates as merger arbitragers unwind the respective long and short positions. Instead, Xilinx largely stood still while enthusiastic posts on Reddit and active short-term call buying propelled AMD nearly 30% in the weeks after reporting earnings at the end of July.

Taking one step back, we think the deal will be approved by the last remaining regulator in China. China recently approved Analog Devices' acquisition of Maxim Integrated Products, which, like Xilinx, represents semiconductor consolidation where competitive alternatives still exist. This stands in contrast to the proposed acquisition of ARM by NVIDIA, where no alternative exists to licensing ARM's instruction set. Taking

[*]The index was not calculated using the net dividends reinvested method, as this data was not available from the index provider.

two steps back, in the event the deal is not completed, we still value the Xilinx intellectual property and think that any disappointment would soon be replaced by a recognition that computing workloads need to continue to diversify from Intel's central processing units to NVIDIA's graphics processing units and to other solutions such as Xilinx's FPGAs. Moore's Law no longer bluntly solves the need for greater computing power, so new architectures and computing instructions are filling the void—especially at the cloud scale.

FORTINET: FORTRESS ON THE MOVE

In recent years, investors who wanted to own cybersecurity companies were often forced to choose between owning fast-growing but aggressively valued and unprofitable assets (like CrowdStrike), or profitable assets with slower growth and risk of technology decay (such as Checkpoint Systems). Fortinet, a position we initiated a year ago, was a leading contributor to relative returns during the month and has enabled us to invest in a well-run, profitable business that was rapidly growing revenue and market share.

The company's culture is dominated by engineering and its solutions have been built on homegrown or easily integrated technology acquisitions that avoid the productivity leakage of operating disparate products that were cobbled together by a sales-centric culture. Its core competitive advantage relies on in-house-designed application specific integrated circuits. These are specialized chips that can process network traffic at an order of magnitude faster (or cheaper) than competitors can, which results in cost savings for customers. Fortinet's share price has more than doubled as the company capitalizes on the strong cybersecurity market for its core firewall offering but also new product extensions that address the heightened threat environment created by increased remote working. Looking ahead, we are excited about the potential for Fortinet's products to find their way into cloud service providers, and while this will likely take a couple of years to play out, we believe it could be a large opportunity for Fortinet. Meanwhile, we continue to monitor the state of the core firewall market and Fortinet's move toward up-the-stack offerings, which gives customers the opportunity to consolidate their cybersecurity needs around a single vendor.

IPG PHOTONICS: NEW SECULAR CASES FOR LASERS OBSCURED BY CURRENT CHINA AND CUTTING CYCLES

IPG Photonics, a supplier of high-powered lasers for industrial applications, detracted from relative performance during the month due to recent concerns about moderating overall China demand as post-COVID-19 economic gains normalize, as well as potential share losses to low-cost local competitors. The current capacity digestion in China, and the indigestion at the low end there, overlooks the continued transition to higher-powered lasers and new applications, especially in welding versus the current reliance on cutting.

We appreciate the secular case for IPG Photonics as it exploits its intellectual property with an eye toward profit maximization over market share. Enabling manufacturing requires managing consistently through both down and up cycles. While grappling with the current headwind in China, we note that auto production, a large driver of machine tool and laser demand, is beginning to brighten. Further, gross margins have improved over the last year as they continue to address high-value markets. Finally, the technical requirements to serve these higher-value markets are much greater than in basic metal cutting, which increases confidence in the durability of the company's competitive position going forward.

The top three (held) contributors to relative performance in August were Fortinet, Etsy and Alphabet Inc..

The top three (held) detractors from relative performance in August were Visa, IPG Photonics and Nike.

As always, thank you for your continued support.

Frank Caruso, John Fogarty and Vinay Thapar

Please refer to the following legal disclosures.

The value of investments in any of the Funds can go down as well as up and investors may not get back the full amount invested. Past performance does not guarantee future results.

Some of the principal risks of investing include Market Risk, Currency Risk, Derivatives Risk, OTC Derivatives Counterparty Risk, Allocation Risk, Overseas Assets Risk, Systemic Risk, Turnover Risk, Illiquid Securities Risk, Leverage Risk, Equities Risk, Concentrated (Focused Portfolio) Risk, Smaller-Capitalization Companies Risk and Long/Short Strategies Risk.

A full explanation of the risks is provided in the Portfolio's Prospectus.