



AB Sustainable Global Thematic Portfolio

Market Overview

Global equities extended their rally into February, buoyed by artificial intelligence (AI) enthusiasm that helped lift fourth-quarter earnings results and soft-landing optimism, especially in the US. Momentum faded at the end of the month as some economic data suggested that lingering consumer and producer price inflation could dial back US Federal Reserve rate-cut expectations more than previously anticipated. For the month, global equities, as measured by the MSCI* All Country World Index† (ACWI), rose 4.3%; for the year, the index has gained 4.9% (all returns in US-dollar terms).

The US Federal Reserve acknowledged inflation's downward trajectory, but it leaned hawkish and emphasized the need for more evidence that price pressures are continuing to ease to avoid cutting rates prematurely, which could undermine its ability to reach the 2% inflation target and achieve price stability. The Fed's higher-for-longer narrative was strengthened after the Consumer Price Index indicated that US inflation rose more than expected in January. Although inflation has continued to fall in the eurozone, the European Central Bank echoed Fed sentiment and indicated that it is unlikely to consider rate cuts until the second half of 2024. Eurozone growth continued to lag the US. The February HCOB Flash Eurozone Composite Purchasing Managers' Index showed that

although overall activity rose slightly on a month-over-month basis, manufacturing output continued to contract, with the decline largely driven by weakness in Germany's manufacturing sector. Services activity in the eurozone continued to stabilize, however, supported by steady consumer demand.

US mega-cap technology companies led the fourth-quarter earnings season as AI enthusiasm continued to underpin better-than-anticipated results. More broadly, factors such as lower input costs, stepped-up efficiencies and cost controls, and previously lowered expectations helped many companies surpass profit estimates. But results were tempered by an uptick in cautionary guidance for the first quarter and full year 2024 in anticipation of slowing economic growth and weaker consumer spending. As the month closed, stocks added to gains as inflation in the eurozone declined in line with expectations and the Fed's preferred inflation gauge, the Core Personal Consumption Expenditures Price Index, rose 0.4% on a month-over-month basis in January—matching estimates and bolstering hopes for an initial rate cut in June.

Both growth- and value-oriented stocks rose in absolute terms for the month and year to date. Growth stocks—led by the technology sector and AI optimism—outperformed value stocks during both periods. Sector

performance within the MSCI ACWI was mostly positive, with utilities the only negative sector during the month. The consumer-discretionary and industrials sectors led outperformance, while the consumer-staples sector also rose in absolute terms but underperformed on a relative basis.

Portfolio Performance

Class A shares of the AB Sustainable Global Thematic Portfolio rose in absolute terms and outperformed their Benchmark, the MSCI ACWI, during February, but they underperformed for the year to date, net of fees. During the month, both security and sector selection contributed to relative performance. Stock selection within healthcare and industrials contributed the most, while selection in financials and energy detracted.

ICON, a provider of contract clinical research services to the global pharmaceutical industry, from our Health theme, contributed. The stock had a significant move in the month as the company noted an improvement in its end markets, with robust growth in new business opportunities among biotechnology and larger pharmaceutical customers. A pickup in new fundraising activity among biotechnology customers has provided further confidence in ICON's new business bookings trajectory this year.

*MSCI indices measure the performance of different stock types in geographic areas. They track the performance of the stocks included in the index and are used as the base for exchange-traded funds.

†An investor cannot invest directly in an index, and index results are not indicative of the performance for any specific investment, including an AB fund. Indices do not include sales charges or operating expenses associated with an investment in a mutual fund, which would reduce total returns.

Flex, an outsourced manufacturer of products including communication devices and autonomous driving systems for electric cars, from our Climate theme, contributed. The company is seen as a beneficiary of AI-related data center spend, as it produces servers and full rack systems for customers. Additionally, Flex's operating margins have been stronger than expected, which supports earnings in the face of macroeconomic-related headwinds in consumer and industrial segments.

TOMRA, a developer of sensor-based recycling sorting and collection solutions, from our Climate theme, contributed. The collection and recycling segments delivered growth in line with targets. New markets for TOMRA in 2023 also generated significant new revenues.

Also from our Climate theme, Neste, the world's leading producer of sustainable fuels and renewable feedstocks, detracted. Although the company posted an earnings beat for 4Q:23, full-year 2024 guidance indicated renewable fuel margins and volumes below expectations. As two new refineries come online toward the end of 2024, renewable project margins should see some recovery.

MSCI, from our Empowerment theme, a provider of data services, ratings and indices, detracted despite high retention rates for its analytics services and an increase in nonrecurring revenue. Though management sees a long runway for growth in its core index segment, the sales environment remains challenged in the near term. MSCI's customers are largely financial-services firms that cut spending budgets heading into 2024 on macroeconomic uncertainty. However, this is likely to be short term in nature, as

MSCI provides products and services that are critical for growth.

Adobe, also from our Empowerment theme, detracted as OpenAI announced its work on Sora, a text-to-video generator, which could potentially affect the creative software market. Sora is still under development and may only affect Adobe's freemium users, not the core demographic of professionals using Adobe for enterprise-level design work. There are also significant safety and copyright concerns associated with Sora, which could be a major reason why OpenAI has not yet released it widely. Adobe maintains an advantage with its Firefly tool, as its training data is Adobe-owned, reducing the risk of copyright infringement and deepfake creation.

Outlook

Amid all the noise, our themes continue to move forward as broad shifts in the global economy run their course. Global challenges such as access to healthcare and infrastructure needs are not solved overnight. Entering the year with a more defensive mindset did not help; however, our core thematic exposures continue to offer robust growth potential.

We believe a portfolio with high-quality companies on the right side of change, trading at reasonable valuations, provides a strong combination for the current market environment. Resilient fundamentals and narrow leadership in the market have created a powerful setup for a group of companies that fit this profile.

Within information, communication and technologies, the latest earnings results from a number of leaders like NVIDIA, Advanced Micro Devices and the cloud providers demonstrate that society's move toward intelligent digital economies is

leading to increased demand for bigger networks, more powerful and energy efficient data centers, and new consumption models. We continue to expect the key AI enablers—companies that facilitate the training and running of AI models in an energy-efficient way—and the adopters that successfully integrate AI in their applications will enjoy strong tailwinds in the near term.

Within transportation, secular shifts in automotives continue—electric vehicles (EV) global sales rose more than 50% through September 2023 versus 63% growth in 2022. EV adoption continues to grow, but it will not be a straight line. Additionally, automotive original equipment manufacturer (OEM) stocks are still in a discovery phase, learning what features have the greatest appeal with consumers. As with our other themes, our focus on the enablers of vehicle electrification is driving an earnings tailwind despite OEM-specific challenges. Every EV rolling off the line contains significantly more electronic content, benefiting suppliers in this ecosystem. We're also seeing a standardization of charging standards in the US, which should encourage further adoption.

In our Health theme, there have been a few dynamics at play in 2023. A lot of the diagnostic and testing companies benefited from robust demand during the early days of COVID-19. Lead time to get products significantly increased, so customers ordered more to ensure supply. In 2023, we saw the reverse as lead times decreased. We are going through a period of inventory digestion (for life sciences and diagnostic tools particularly) along with macroeconomic weakness in China—a double whammy of sorts for suppliers into this ecosystem. The underlying growth

rate of their customers (biopharmaceutical production) remains in the double digits. The market enthusiasm around weight loss has also drawn investor attention and buying activity, further depressing valuations for companies outside this group. We expect 2024 should see an improvement in inventory profiles and

growth rates for suppliers of medical innovation products as well.

As Ben Graham said, “In the short run, the market is a voting machine but in the long run it is a weighing machine.” Rather than chasing the market’s chosen few, our focus continues to be on identifying powerful

themes and the companies best positioned to capitalize on these opportunities. This approach has delivered strong results for our clients over time and we are highly confident in its ability to do so in the future.

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