AB Discovery Growth Fund

Advisor Class: CHCYX

Market Overview

US equities extended their rally into February, buoyed by artificial intelligence (AI) enthusiasm that helped lift fourth-quarter earnings results and soft landing optimism. Momentum faded at the end of the month as some economic data suggested that lingering consumer and producer price inflation could dial back rate cut expectations more than previously anticipated. For the month, US equities, as measured by the Russell 2500 Growth Index, rose 8.10%; for the year, the index has gained 5.66% (all returns in yen 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 inflation rose more than expected in January. While recent data continues to point to an expanding US economy which favors a soft landing, it also allows the Fed more time to assess incoming data and push back rate cut expectations. The labor market has remained strong with first-time applications for unemployment benefits hovering near record lows and most importantly, job stability and wage growth have continued to support resilient consumer spending.

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 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 (as measured by the Russell 1000 Growth and Value indices). Growth stocks—led by the technology sector and AI optimism—outperformed value stocks during both periods. Both large- and small-cap stocks rose in absolute terms for the month and year. Small-cap stocks outperformed large-cap stocks on a relative basis for the month, while large-cap stocks outperformed small-cap stocks for the year (as measured by the Russell 1000 and Russell 2000 indices). During the month, sector performance within the Russell 2500 Growth was mostly positive. The consumer-staples and consumer-discretionary sectors led outperformance, while the real estate and energy sectors also rose in absolute terms but underperformed on a relative basis.

Fund Performance

The Discovery Growth Fund increased and outperformed the Russell 2500 Growth in February. During the month, both sector and stock performance contributed to overall results. Stock selection within industrials and healthcare contributed most, while selection within technology and an underweight to materials detracted.

Viking Therapeutics, a biotechnology company that specializes in treatments for metabolic disorders such as obesity, contributed. Late in the month, the company reported encouraging top-line results from a phase 2 trial for its injectable weight loss drug. The results exceeded investor expectations, marking an optimal outcome. Following a 120% intraday increase in the stock's value based on this data, we are maintaining our position.

Shares of Celsius Holdings, a leading energy drink brand, contributed as strong volume trends persisted, even after initial gains from the 2022 PepsiCo distribution deal. The company's fourth-quarter revenue and earnings also exceeded consensus expectations. We see potential for Celsius to expand its market share in the energy drink category as Spring shelf resets with current retail partners allow for more product visibility. As the brand gains momentum and attracts new consumers to the energy category, we anticipate additional growth opportunities across all distribution points, including emerging sectors such as food service and international markets.

XPO, a transportation service provider in the less-than-truckload (LTL) sector, contributed after its fourth-quarter earnings exceeded consensus estimates for both revenue and earnings. This performance was notable given the weak freight market, with XPO's volume and pricing growth outpacing the market due to recent service enhancements that have attracted customers away from competitors. We anticipate further potential for significant revenue and earnings growth as the freight market rebounds and XPO continues to close its pricing gap with industry peers.

Five9, a leading cloud-based software provider for customer support and contact centers, detracted after reporting an in-line quarter and 2024 guidance that met expectations. Although the company reported a record quarter in seven-figure contract signings, there was continued weakness in the consumer vertical with fewer seasonal contact center seats purchased. Large enterprise engagements, which are phased and provide strong revenue visibility, had a delayed impact on the company's profit and loss statement. This led to investor disappointment as Five9's recurring revenue growth reacceleration was postponed to the second half of this year. Despite this, we believe that Five9 maintains a strong competitive position and offers a favorable risk-reward balance after this pullback.

Inari Medical, a medical device company specializing in catheter-based technology for venous thromboembolism, detracted. Shares have been under pressure for several reasons. The company has received a civil investigative demand from the Department of Justice concerning meals and consultant payments, although this should have immaterial financial impact. Of greater concern is a company update that suggests it may be losing more market share than analyst estimates predicted. We are currently assessing the market share dynamic to determine if the update is merely a reflection of the company’s historically conservative guidance or if our market leader thesis has deteriorated.

Dynatrace, a leading software infrastructure intelligence and observability platform, detracted despite a strong fiscal third quarter. Shares traded lower due to a moderation in the company's fourth-quarter guidance for new annual recurring revenue. Despite the company having a record pipeline, some significant deals may not close until mid to late 2024, which might not benefit the current fiscal year which ends in March. Despite this, Dynatrace's strong competitive position in the digital transformation ecosystem remains, particularly as customers seek to modernize and automate their IT operations. We believe this timing issue will have a minimal impact on our investment thesis.

Outlook

The Fund continues to be built from the bottom up, with an emphasis on companies that we believe will deliver fundamental outperformance. Amid supply chain normalization and a moderating labor market, inflation has eased and core price indices are approaching Fed targets on an annualized basis. With the Fed's dual mandate appearing on track, the market is anticipating several rate cuts in 2024; this has driven long and short rates lower and benefited small-cap stocks disproportionately. Our Fund remains balanced between secular and cyclical growth; we favor companies with idiosyncratic drivers alongside those that will benefit from the tailwinds of a resilient economy in a more stable interest-rate environment.

Consumer confidence has recently rebounded, driven by positive real wage growth against a healthy employment backdrop. Energy and goods prices have deflated, leaving a greater amount in consumer wallets for more discretionary purchases and higher excess savings. Importantly, we anticipate a larger flow of government investment dollars from recent infrastructure stimulus programs to be

deployed in 2024, which should benefit industrial and technology companies alike. We are focused on identifying businesses with unique drivers that are well positioned to capture this increased capital spending in the upcoming year.

While economic uncertainties and interest-rate pressures have abated, we continue to monitor the potential lagged effects of the Fed's monetary tightening in the past two years. Even if economic growth moderates, SMID-cap growth stocks have already significantly underperformed for a sustained period, which could support continued relative outperformance for the asset class. As risk appetite returns, the potential of a more fundamentally driven market in 2024 and beyond should provide a favorable backdrop for our approach of identifying fundamental outperformers. We encourage investors to consider rebalancing their SMID-cap growth exposure opportunistically, as missing a small portion of a market recovery can impact long-term performance.

Top Ten Holdings*	Portfolio %
Axon Enterprise	2.51
Natera	2.31
Manhattan Associates	2.17
Celsius Holdings	2.11
Deckers Outdoor	1.99
Kinsale Capital	1.95
PTC	1.85
Super Micro Computer	1.79
Fabrinet	1.70
Five Below	1.70

Please refer to the following legal disclosures.

*Based on a representative account as of 01/31/24. Holdings, characteristics and weightings (which are equity-only weightings and exclude cash) will vary over time. They are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities mentioned.

A WORD ABOUT RISK

Market Risk: The market values of the portfolio's holdings rise and fall from day to day, so investments may lose value. **Capitalization Size Risk (Small/Mid):** Small-and mid-cap stocks are often more volatile than large-cap stocks—smaller companies generally face higher risks due to their limited product lines, markets and financial resources**. Foreign (Non-US) Risk:** Non-US securities may be more volatile because of political, regulatory, market and economic uncertainties associated with such securities. Fluctuations in currency exchange rates may negatively affect the value of the investment or reduce returns. These risks are magnified in emerging or developing markets. **Derivatives Risk:** Investing in derivative instruments such as options, futures, forwards or swaps can be riskier than traditional investments, and may be more volatile, especially in a down market.

References to specific securities are provided solely in the context of the analysis presented and are not to be considered recommendations by AllianceBernstein. AllianceBernstein and its affiliates may have positions in, and may effect transactions in, the markets, industry sectors and companies described herein.

Investors should consider the investment objectives, risks, charges and expenses of the Fund/Portfolio carefully before investing. For copies of our prospectus or summary prospectus, which contain this and other information, contact your AB representative. Please read the prospectus and/or summary prospectus carefully before investing.

Investment Products Offered: Are Not FDIC Insured | May Lose Value | Are Not Bank Guaranteed

The Russell 2500 Growth Index represents the performance of small- to mid-cap growth companies within the US.

An investor cannot invest directly in an index and its performance does not reflect the performance of any AllianceBernstein fund. The unmanaged index does not reflect fees and expenses associated with the active management of a portfolio.

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