AB FLEXFEE™ INTERNATIONAL BOND PORTFOLIO

Advisor Class: FFIYX

PORTFOLIO PERFORMANCE

In the third quarter of 2020, the FlexFee International Bond Portfolio (Advisor Share Class) delivered positive absolute returns and outperformed its benchmark, the Bloomberg Barclays Global Aggregate ex US Index (USD hedged), which returned 0.68%. Year to date, the portfolio increased in absolute terms but underperformed the benchmark's return of 2.97%.

WHAT WORKED AND WHAT DIDN'T WORK IN THE THIRD QUARTER?

Contributors

+ Country/yield-curve positioning: overweight to the US and underweight to Japan
+ Sector allocation: overweight to eurozone high-yield corporates; off-benchmark exposure to US investment-grade corporates and emerging-market (EM) sovereigns
+ Security selection: selection within eurozone treasuries and investment-grade corporates
+ Active currency positions: overweight position in the Brazilian real and Indian rupee

Detractors

– Country/yield-curve positioning: yield-curve positioning in China
– Sector allocation: off-benchmark exposure to US commercial mortgage-backed securities (CMBS)
– Security selection: there were no significant detractors
– Active currency positions: overweight position in the Russian ruble

HOW DID THE MARKETS MOVE IN THE THIRD QUARTER?

The rally in fixed-income markets following the sharp sell-off in March continued in the third quarter, but the pace of the rebound slowed and volatility increased toward the end of the period. As COVID-19 cases accelerated in Europe, the US and other developed-market (DM) countries, investors became increasingly concerned that the resurgence of the novel coronavirus could result in renewed lockdowns and restrictions. Also, uncertainty increased around much-needed additional fiscal spending proposals, particularly in the US, even as central banks reiterated that more fiscal spending is imperative. Rock-bottom official rates and significant central bank bond-buying programs kept interest rates anchored at historically low levels and supported credit-risk assets as investors reached for yield.

Global treasury returns were positive as yield curves remained stable or flattened in most DM countries. Rates rallied the most in Italy and Spain as the European Central Bank (ECB) continued to support peripheral countries through the pandemic emergency purchase programme (PEPP) and the European Union (EU) agreed to issue joint debt in the €750 billion Next Generation EU recovery fund. Italian 10-year bond yields fell by 39 basis points (b.p.) to end significantly lower, at 0.87%; Spanish 10-year bonds were 21 b.p. lower, at 0.25%; and 10-year German Bund rates fell 6 b.p., to –0.52%. The yield on the 10-year US Treasury fell to a low of 0.52% in early August and then rose to 0.69%, up 3 b.p. for the quarter. In Japan, 10-year government bonds fell 1 b.p., to 0.01%, while 10-year bonds in Australia, the UK and Canada rose 8, 6 and 3 b.p., respectively.

Nongovernment-sector returns outperformed government bonds, led by high-yield corporate bonds. This performance was true more so in the eurozone than in the US, given significant bond-buying support from the ECB, compared with the US Federal Reserve. In securitized assets, commercial mortgage-backed securities (CMBS) outperformed, while CRTs generally advanced relative to global treasuries. EM hard-currency sovereigns outperformed global treasuries as the US dollar fell against most EM and all major DM currencies.

Among commodities, Brent crude oil prices rose through August and then fell sharply in September as inventories rose and the demand outlook softened, ending the quarter up only 2.42%. Copper gained 11.76%, while gold increased by 4.83% for the quarter, as a perceived inflation hedge.

HOW IS THE INTERNATIONAL BOND PORTFOLIO POSITIONED?

Portfolio risk was increased in April, coming off the March sell-off. As the risk-asset rally continued, we let risk drift lower. Overall, portfolio risk levels ended 3Q:20 modestly lower, as we booked profits on many positions that we added during the sell-off. Towards the end of the quarter, the team began to increase the cash position to build a liquidity buffer ahead of the US election.

Overall portfolio duration was increased over the quarter. At the start of July, the duration was 8.38 years, in line with the benchmark. The team added 0.60 years of duration during 3Q:20, and the portfolio ended the quarter at 8.97 years, 0.60 years overweight relative to the benchmark. We do not see a catalyst for yields to move higher, as they are relatively well anchored in the short term due to central bank

activity. We maintained overweight exposure toward the long end of the curve as a hedge if equities and risk assets were to move lower.

We maintained our underweight to Japan and France and moved to being overweight Germany towards the end of the quarter. Across European core countries, we previously aimed to capitalize from the yield pickup provided by Austria and Finland over Germany. Over the last few months, spreads in Austria and Finland have tightened meaningfully. Accordingly, we rotated exposure from these two countries back into Germany, as German Bunds will outperform Austria and Finland government bonds in a risk-off environment. We were overweight the euro-periphery countries during July and August, as they were among the few areas that provided a spread pickup. Euro-peripheral sovereign yields moved lower in September, and we used that as an opportunity to reduce our overweight to Italy and Spain. We ended the quarter overweight Italy from a duration perspective and neutral in Spain. While the team remains constructive due to European Central Bank (ECB) buying, their view is that peripheral spreads will not remain immune to risk-off episodes. We remained overweight in the UK, specifically in the long end of the curve. As we approach the end of the year, we think the UK leaving the EU will place downward pressure on the country's yields and weigh on growth. We increased our exposure to China duration over the quarter. The team favors China duration because of its incredibly strong credit quality (mid-AA), decent nominal yield and negative correlation to risk assets. Another positive technical involves China's weight increasing as it is being phased into global indices.

Within corporate bonds, our strategy in July and August was to focus on rotating from tight-trading names into value opportunities, where spreads remain elevated. Toward the end of the quarter, that spread premium collapsed, which prompted the team to stop adding into wide-trading names. Exposure to high-yield corporates was modestly increased over the quarter, as the team focused on quality, keeping exposure in BB-rated bonds.

We added to EM, primarily through increasing exposure to China, as the country is being phased into the index. In September, we added local bonds on a currency-hedged basis in countries where curves remained steep, including Brazil, Peru and Colombia. This was a direct response to the low expected returns for short-dated DM government bonds. Exposure to EM hard currency was decreased and used as a funding source for local-currency-hedged positions. This also served to reduce some beta as we get closer to the US election.

Exposure to CRTs was reduced, as we booked profits on the investment-grade, last-cash-flow (LCF) bonds that recovered to their pre-pandemic highs. CRTS have performed very well since the March sell-off, but we believe that they continue to offer solid fundamentals at a time when corporate credit metrics look stretched. Finally, CMBS exposure was trimmed, as the team looked to reduce exposure on days of market strength.

WHAT IS THE MACRO OUTLOOK?

The economic outlook has improved, yet it remains highly uncertain because of the unrelenting impact of the pandemic on economic output. Given the recent acceleration of cases in Europe, the US and other DM areas, we may be closer to the beginning than to the end of the pandemic's economic impact, supporting the need for additional fiscal stimulus. Geopolitical conflicts are ever present, including Brexit, ongoing trade and technology conflicts between the US and China, and the impact of protectionism and de-globalization on supply chains, world trade and business sentiment. The World Trade Organization (WTO) recently ruled that US tariffs on China were illegal under the Trade Act of 1974. However, the ruling is a moot point because the US has blocked new members from joining the WTO appeals court, rendering it unable to intervene. US tariffs on Chinese exports have not reduced the currently rising US trade deficit with China. More than 3,500 companies have filed lawsuits at the US Court of International Trade in New York against the US government over tariffs on China. Additionally, the news on October 2 that US president Donald Trump has COVID-19 has injected another source of potential uncertainty into the contentious presidential election race against challenger Joe Biden. We are not making any immediate changes to our economic projections until more news and data are available. Given the positive recovery in economic output, which has been offset by elevated trade and geopolitical conflicts, we have revised our global GDP estimate upward to a smaller contraction of 4.3% in 2020, followed by a recovery of 4.7% in 2021. Our growth assumptions are based on DM and EM GDP growth of –5.5% and –2.4%, respectively, with rebounds of 3.7% for DM and 6.4% for EM in 2021.

The absence of a Brexit divorce trade deal remains the greatest potential negative for the UK economy, given that trade with the EU is about €850 billion per year. In late September, the House of Commons passed an Internal Market Bill supported by UK prime minister Boris Johnson that violates the UK's withdrawal agreement with the EU. The EU responded by starting legal proceedings against the UK, potentially leading to a hard trade Brexit on WTO terms. US House of Representatives Speaker Nancy Pelosi stated that there will be no free-trade deal between the US and UK if the original Brexit agreement is not followed. However, the UK reached a trade agreement with Japan, a precursor to joining the Trans-Pacific Partnership. BoE governor Andrew Bailey succinctly summed up the global trade landscape by saying that "nobody benefits from closing borders, and nobody benefits from closing markets, and nobody benefits from protectionism." We have maintained our sharply lower 2020 GDP forecast for the UK at –10.0%, with a rebound of 3.5% in 2021.

In the eurozone, the recent acceleration of COVID-19 cases is a potential cause for concern. It is widely expected that the ECB will expand its PEPP again by the end of the year. Consumer prices in the eurozone are falling for the first time since 2016. There is also a potential roadblock that might delay the implementation of the Next Generation EU program, based on member-country adherence to democratic principles—a contentious issue, particularly for Hungary and Poland. Ongoing trade issues include EU digital taxes that France wants formalized by the first quarter of 2021. The European

Commission says that it will come up with a digital tax plan by the end of the year if negotiations at the Organisation for Economic Co-operation and Development fail. We have maintained our GDP forecast for 2020 at –7.5%, with an increase of 4.3% in 2021.

In China, the economy has recovered faster than in DM countries, and it is the only major country likely to show positive economic growth in 2020, driven mainly by industrial production and infrastructure spending. Retail sales returned to growth in August, for the first time since the beginning of the pandemic, but manufacturing growth may be slowing after a strong rebound. The EU has become increasingly impatient with China in regard to human rights policies. The EU is also currently locked out of many Chinese markets and is pressing for a new EU-China Comprehensive Agreement on Investment. Given that China's largest export markets are the US and EU, protracted trade tensions with these two blocs are a risk to Chinese growth. We have raised our estimate of Chinese GDP this year to 2.0%, with a lower growth rate of 8.0% in 2021.

As expected, retiring Japanese prime minister Shinzo Abe was replaced by Yoshihide Suga. Suga is expected to continue "Abenomics" policies and keep fiscal spending initiatives in place. Japan is stabilizing from the pandemic and should benefit from the economic rebound in China. The new trade agreement with the UK is also a plus for future trade growth. Suga spoke with South Korean president Moon Jae-in in an attempt to thaw bilateral relations, which have been strained over trade and wartime forced labor, among other issues. Our GDP estimates for the Japanese economy are being maintained, with a contraction of 5.6% in 2020 and growth of only 2.2% next year.

Australia has benefited from higher commodity prices, particularly iron-ore exports to China, which are mitigating a widening budget deficit from the pandemic lockdown in Melbourne. The Reserve Bank of Australia (RBA) expanded and extended its lending facilities to banks and maintained its cash and three-year target rates. Additional monetary policy measures, including a rate cut and a larger bond-buying program by the RBA, are expected by investors. We have maintained our forecast that Australian GDP will contract by 4.4% in 2020 and recover by 2.3% in 2021.

Canada has rebounded from the pandemic faster than expected and is now split on increasing budget deficits due to the pandemic. The Bank of Canada (BoC) plans to maintain extraordinary monetary policy measures for as long as needed, according to BoC governor Tiff Macklem, keep interest rates low until excess capacity is reduced and continue to purchase federal government bonds until the recovery is "well under way." We expect Canadian GDP to contract by a smaller 3.5% this year, followed by a recovery of 3.3% in 2021.

PORTFOLIO INFORMATION

Class	Ticker	Inception Date
Advisor	FFIYX	6/28/17

Portfolio Characteristics	
Effective Duration[1]	9.07 years
Total Number of Holdings	276
Average Bond Price	$109.9

Portfolio Statistics	
Sharpe Ratio (3 yr)[2]	0.67
Standard Deviation (3 yr)[3]	3.72

Sector Breakdown[4,5]	
Global Governments	47.20%
Corporates - Investment Grade	22.67
Quasi-Sovereigns	8.62
Corporates - Non-Investment Grade	5.49
Governments - Sovereign Agencies	3.48
Local Governments - Provincial Bonds	2.97
Covered Bonds	2.75
Collateralized Mortgage Obligations	2.02
Emerging Markets - Treasuries	1.66
Derivatives, Cash & Other	3.14

Quality Breakdown[4,5]	
Highest of S&P/Moody's/Fitch	
AAA	24.57%
AA	15.08
A	26.07
BBB	17.45
BB	7.69
B	0.96
Not Rated	9.49
Short Term Investments	1.63

Country Breakdown[4]	
United States	21.72%
Canada	10.87
China	10.60
United Kingdom	9.19
Japan	9.00
Other	38.62

Net Currency Exposure[4]			
Top Long Positions		**Top Short Positions**	
US Dollar	98.80%	Chinese Yuan Renminbi	-10.44%
Chinese Yuan Renminbi	10.16	British Pound	-2.03
Euro	3.87	New Zealand Dollar	-1.30
Other	1.05	Other	-0.11

1 Effective Duration is a measure of the sensitivity of an asset or portfolio's price to interest rate movements.
2 Sharpe Ratio is a measure of the fund's return relative to the investment risk it has taken. A higher Sharpe Ratio means the fund's returns have been better given the level of risk the fund has taken.
3 Standard Deviation is a measure of the dispersion of a portfolio's return from its mean.
4 Holdings are expressed as a percentage of total investments and may 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.
5 Credit Quality is a measure of the creditworthiness and risk of a bond or portfolio, based on the issuer's financial condition. For purposes of this document, all ratings are based on ratings of S&P, Moody's and Fitch: AAA/Aaa is highest and D is lowest. If applicable, the Pre-Refunded category includes bonds which are secured by US Government Securities and therefore are deemed high-quality investment-grade by the Adviser. If applicable, the Not Rated category includes bonds that are not rated by a Nationally Recognized Statistical Rating Organization. **Conventions for split ratings:** Sector Allocation/High Yield uses a split to lower with two different ratings [and a split to middle for three ratings]; Credit Quality uses a split to higher. Therefore, information contained herein may be different where the Prospectus requires a different split ratings convention or, where the Prospectus does not specify, AB applies its own split ratings convention.

QUARTERLY AVERAGE ANNUAL TOTAL RETURNS AS OF 09/30/20: ADVISOR CLASS PERFORMANCE

	QTD	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception	Expense Ratios*
FlexFee International Bond Portfolio†	1.23%	2.31%	1.60%	4.02%	–	–	3.76%	as of 4/30/20 Gross 1.03% Net‡ 0.20%
Bloomberg Barclays Global Aggregate Bond Index ex US (USD Hedged)	0.68	2.97	1.82	4.94	–	–	4.59	as of 9/30/20 Gross 0.94% Net‡ 0.20%
Morningstar World Bond-USD Hedged Category	1.50	4.15	3.80	4.42	–	–	4.59	
SEC Current Yield (30-day)^ Gross 0.29% Net‡ 1.51%								

The performance shown above represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance information shown. You may obtain performance information current to the most recent month-end by visiting www.abfunds.com. The investment return and principal value of an investment in the Portfolio will fluctuate, so that your shares, when redeemed, may be worth more or less than their original cost. Advisor Class shares have no front-end or contingent deferred sales charges, however when purchased through a financial advisor additional fees may apply. Performance assumes reinvestment of distributions, the deduction of all fund expenses, and does not account for taxes. If applicable, high double-digit returns are highly unusual and cannot be sustained; such returns are primarily achieved during favorable market conditions.

*** If applicable, this reflects the Adviser's contractual waiver of a portion of its advisory fee and/or reimbursement of a portion of the Fund's operating expenses. This waiver extends through April 30, 2021 and may be extended by the Adviser for additional one-year terms. Absent reimbursements or waivers, performance would have been lower. Current expense reflects the performance fee through prior day.**

† The Fund's Advisor Class share inception date is 6/28/17 and is the date used to calculate since inception annualized performance.

‡ Excludes expenses associated with acquired fund fees and expenses other than the advisory fees of any AB mutual funds in which the Fund may invest, interest expense, taxes, extraordinary expenses, and brokerage commissions and other transaction costs. Expenses are subject to change.

^ Gross SEC yield is calculated using the total expense ratio excluding any fee waivers.

Bloomberg Barclays Global Aggregate Bond Index ex US (USD hedged) represents the performance of the global investment-grade developed fixed-income markets, excluding the United States. Investors cannot invest directly in indices or averages, and their performance does not reflect fees and expenses or represent the performance of any AB fund.

Sources: FactSet, Morningstar Inc. and AB.

FEES LINKED TO OUTPERFORMANCE

	Fund Performance (assumes deduction of TER) vs Benchmark	Total Expense Ratio (TER)*
Min Fee	Index or lower	0.20%
	+ 0.10%	0.24%
	+0.20	0.29
	+0.30	0.33
	+0.40	0.37
	+0.50	0.41
	+0.60	0.46
Mid Fee	Index + 0.70%	0.50%
	+0.80%	0.54%
	+0.90	0.59
	+ 1.00	0.63
	+ 1.10	0.67
	+ 1.20	0.71
	+ 1.30	0.76
Max Fee	Index + 1.40% or higher	0.80%

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. **Interest Rate Risk:** As interest rates rise, bond prices fall and vice versa—long-term securities tend to rise and fall more than short-term securities. **Credit Risk:** A bond's credit rating reflects the issuer's ability to make timely payments of interest or principal—the lower the rating, the higher the risk of default. If the issuer's financial strength deteriorates, the issuer's rating may be lowered and the bond's value may decline. **Inflation Risk:** Prices for goods and services tend to rise over time, which may erode the purchasing power of investments. **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. **Diversification Risk:** Portfolios that hold a smaller number of securities may be more volatile than more diversified portfolios, since gains or losses from each security will have a greater impact on the portfolio's overall value. **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. **Leverage Risk:** Trying to enhance investment returns by borrowing money or using other leverage tools—magnify both gains and losses, resulting in greater volatility. **Below Investment Grade Securities Risk:** Investments in fixed-income securities with lower ratings (commonly known as "junk bonds") tend to have a higher probability that an issuer will default or fail to meet its payment obligations. **Liquidity Risk:** The difficulty of purchasing or selling a security at an advantageous time or price.

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