# AB MUNICIPAL HIGH QUALITY PORTFOLIO

Separately Managed Accounts

## MARKET OVERVIEW

The second quarter featured a sharp reversal following the increase in yields during the first quarter, with both US Treasury yields and benchmark municipal yields declining. Ten-year AAA-rated municipal yields declined 13 basis points (b.p.), and the asset class continued to deliver strong absolute returns, with the Bloomberg Barclays Municipal Index returning 1.42% during the second quarter.

Investor demand for municipals has been the key catalyst for performance. So far this year, the municipal market has experienced a staggering $62 billion in inflows—on pace to break 2019's calendar-year inflow record. Additionally, demand for income continues to remain a theme in the market. Investors' initial concerns around issuer credit fundamentals have all but abated. State and local government balance sheets have been bolstered by a powerful combination of better-than-expected tax-revenue collections and multiple stimulus packages for municipalities. For example, a recently issued National Association of State Budget Officers report stated that annual general fund revenue collections increased 1.4% year over year for fiscal year 2021 and are expected to jump to 3.4% for fiscal year 2022. Once more, 38 out of 50 states are expecting to collect more revenues this year than initially budgeted. Rating agencies such as Moody's have begun to take notice, with credit upgrades outpacing downgrades in the first quarter of 2021; upgrades accounted for 71% of rating activity during the first quarter. Furthermore, there were upward revisions by public rating agencies on a handful of high-profile issuers such as the State of Illinois, New Jersey and Connecticut—Connecticut's upgrade was the first in over 20 years. This downgrade cycle was far shorter than the four-year downgrade cycle following the 2008 global financial crisis.

## PORTFOLIO PERFORMANCE

Much of the credit concerns that dominated headlines in 2020 have dissipated on the back of federal stimulus programs and higher-than-expected state and local government revenues. Stronger-than-anticipated credit fundamentals, investor thirst for yield and lack of meaningful supply have led high-yield spreads to tighten from their five-year average of 248 b.p. to 183 b.p. As credit spreads tighten, the incremental yield pickup that high-grade investors earn for dipping down into the credit spectrum dissipates. For investors who look to the municipal market as a place for their "sleep at night" assets, high-grade municipal bonds remain a fitting segment of the market. If we see rates continue to march higher, longer-term investors with the flexibility that active management provides should view this as an opportunity to lock in higher yields.

For the quarter, the AB Municipal High Quality Portfolio returned 1.06%, outperforming its benchmark, the Bloomberg Barclays Intermediate Managed Money Municipal Index, which returned 1.01%. Both sector selection and individual security selection contributed for the quarter, with a relative underweight to the six- to 10-year part of the curve detracting slightly. Allocations to healthcare and special tax revenue sectors contributed to relative performance.

## OUTLOOK

We expect the US economy to post its highest year-over-year growth rate in nearly 40 years during 2021—taking GDP back to, and beyond, the pre-crisis trend, as pent-up demand and strong household finances continue to push up consumption. We expect the Fed to start slowly normalizing policy by gradually reducing asset purchases later this year, although the Fed has made it clear that rate hikes remain a distant prospect. As a result, we believe the 10-year Treasury will likely end the year between 1.75% and 2.25%. On the inflation front, we, like other forecasters, have been surprised by the magnitude of price increases so far this year. However, we remind investors that the magnitude is less important than the duration; inflation is a persistent rise in prices, not a short-term adjustment in the price level. We believe, and the Fed agrees, that most of the near-term pressure will fade as the reopening progresses. On the federal policy front, President Biden has indicated support for the eight-year $1.2 trillion bipartisan infrastructure plan. The impact on the municipal market remains to be seen, although financing options include public-private partnerships, private activity bonds and direct pay bonds.

While the backdrop of strong growth and higher inflation should drive interest rates higher than current levels, we do anticipate a continued strong technical environment in municipals that should help mitigate the price impact of rising rates. The market is forecast to see net negative supply of $35 billion during the second half of 2021, which should continue to provide a positive tailwind if inflows continue. Furthermore, with a plethora of cash still on the sidelines, a rise in yields would be welcomed by many—and be used as a buying opportunity, helping keep a lid on rising yields.

We continue to utilize the Portfolio's flexibility to navigate the challenging fixed-income environment. With higher yields likely on the horizon, we have employed a short duration position versus our benchmark.

## PORTFOLIO INFORMATION

| Sector Weights[1] | |
|---|---|
| Special Tax | 18.6% |
| Local General Obligation | 14.6 |
| State General Obligation | 13.8 |
| Water & Sewer | 13.2 |
| Lease | 6.7 |
| Revenue - Miscellaneous | 5.7 |
| Education | 4.2 |
| Guaranteed | 3.4 |
| Electric Utility | 3.4 |
| Toll Roads/Transit | 2.9 |
| Prerefunded | 1.4 |
| Other | 12.1 |

| Ratings Allocation[1,2] | |
|---|---|
| **Highest of S&P/Moody's/Fitch** | |
| AAA | 37.7% |
| AA | 60.1 |
| A | 2.2 |

| Portfolio Characteristics[1] | |
|---|---|
| Modified Duration | 4.9 - 5.1 years |
| Average Maturity | 8.0 - 8.2 years |
| Average Coupon | 4.7 - 4.9% |
| Current Yield | 3.8 - 4.0% |
| Yield to Worst | 0.7 - 0.9% |

**You should not assume that these securities or investments we make in the future were or will be profitable or will equal the performance of the securities discussed in this document.**

**Market Risk:** The market values of the portfolio's holdings rise and fall from day to day, so investments may lose value.

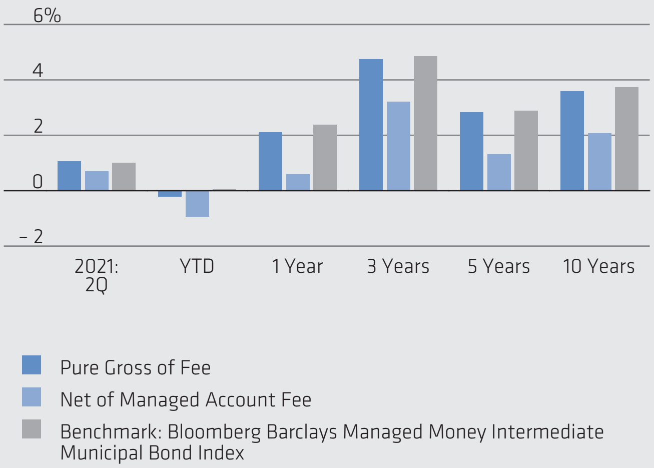
1 Based on a Municipal High Quality representative account as of 6/30/21. Portfolio holdings, characteristics and weightings will vary over time. Contact your financial advisor for a complete list of portfolio holdings. These are not recommendations to buy or sell any security.

2 A measure of the quality and safety of a bond or portfolio, based on the issuer's financial condition, and not based on the financial condition of the portfolio itself. AAA is highest (best) and D is lowest (worst). Ratings are subject to change. Investment-grade securities are those rated BBB and above. 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 Applicable category includes non credit worthy investments; such as equity securities, currency contracts, futures and options. If applicable, the Not Rated category includes bonds that are not rated by a Nationally Recognized Statistical Rating Organization.

Source: AB.

**This is supplemental information to the Municipal High Quality Managed Accounts Composite Performance Disclosure which can be found on the next page.**

**ANNUALIZED RETURNS** (Preliminary)




| | Pure Gross of Fee[3] | Net of Managed Account Fee | Bloomberg Barclays Mgd Money Intrmd Muni Bond |
|---|---|---|---|
| 2021: 2Q | 1.06% | 0.69% | 1.01% |
| YTD | -0.21 | -0.94 | 0.04 |
| 1 Year | 2.10 | 0.59 | 2.37 |
| 3 Years | 4.75 | 3.20 | 4.86 |
| 5 Years | 2.83 | 1.31 | 2.88 |
| 10 Years | 3.59 | 2.06 | 3.74 |

3 Pure gross-of-fees do not reflect the deduction of any expenses, including trading costs, and are presented as supplemental information to net returns. Returns will vary, based on the client's actual portfolio holdings and the actual fees charged to the account.

Performance results are shown pure gross of all fees and net of a maximum 3.0% managed account fee, which includes transaction costs, custodial service fees and investment advisory fees. Please see the Composite Performance Disclosure below.

**Past performance does not guarantee future results.**

## COMPOSITE PERFORMANCE DISCLOSURE

| Period | Composite Assets (USD millions) | Composite Accounts at End of Period | Net Return (%) | Pure Gross Return (%)[4] | Internal Composite Dispersion (%) | Composite 3-Yr Ann ex Post Std Deviation (%) | Benchmark 3-Yr Ann ex Post Std Deviation (%) | Total Firm Assets (USD billions) | Bloomberg Barclays Mgd Money Intrmd Muni Bond (Gross) Unhedged to USD Return (%) | % of Managed Accounts |
|---|---|---|---|---|---|---|---|---|---|---|
| 2020 | 354.7 | 269 | 3.74 | 5.30 | 0.45 | 3.80 | 3.70 | 611.5 | 5.70 | 100 |
| 2019 | 290.3 | 198 | 5.54 | 7.12 | 0.18 | 2.57 | 2.59 | 574.4 | 7.10 | 100 |
| 2018 | 194.8 | 150 | -0.14 | 1.36 | 0.32 | 3.24 | 3.63 | 473.5 | 1.22 | 100 |
| 2017 | 142.1 | 121 | 2.80 | 4.34 | 0.21 | 3.23 | 3.63 | 512.9 | 4.88 | 100 |
| 2016 | 80.1 | 61 | -1.72 | -0.25 | 0.29 | 3.18 | 3.59 | 444.5 | -0.27 | 100 |
| 2015 | 64.5 | 44 | 1.62 | 3.14 | 0.32 | 3.16 | 3.29 | 432.1 | 3.40 | 100 |
| 2014 | 39.4 | 26 | 4.66 | 6.23 | 0.94 | 3.58 | 3.53 | 440.7 | 6.83 | 100 |
| 2013 | 22.7 | 15 | -3.20 | -1.75 | 0.37 | 4.03 | 3.96 | 416.5 | -1.85 | 100 |
| 2012 | 6.9 | 5 | 3.02 | 4.57 | 0.32 | NA | NA | 395.7 | 4.76 | 100 |
| 2011 | 5.6 | 4 | 9.25 | 10.89 | NM | NA | NA | 336.5 | 10.51 | 100 |
| 3 Years[5] | | | 3.02 | 4.57 | | | | | 4.65 | |
| 5 Years[5] | | | 2.01 | 3.54 | | | | | 3.69 | |
| 10 Years[5] | | | 2.50 | 4.04 | | | | | 4.17 | |

NM Not Meaningful, fewer than two accounts were included in the Composite for the full period. NA Not Applicable, less than minimum time period.
4 Pure Gross Return is supplemental information. 5 Annualized through most recent year-end.
PRESENTATION OF THE FIRM-AllianceBernstein L.P. ("ABLP") is a registered investment advisor with the US Securities and Exchange Commission. AB Institutional Investments and AB Investments (collectively, the "Firm") are the institutional and retail sales, marketing and client service units of ABLP. In February 2006, Alliance Capital Management L.P. changed its name to ABLP. COMPLIANCE STATEMENT-The Firm claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. The Firm has been independently verified for the periods from 1993 through 2019. The verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. COMPOSITE DESCRIPTION-The performance results displayed herein represent the investment performance record for the Municipal High Quality Managed Account Composite (the "Composite"). The Composite includes all fee-paying discretionary accounts. The Composite consists of accounts managed in an active fixed income strategy which primarily invests in individual high-quality Municipal Securities and seeks to outperform the benchmark with moderate sensitivity to risk. As of 12/31/10, 12/31/11, 12/31/12, 100%, 5%, 4% of the Composite assets were in a non-fee paying proprietary account, respectively. From 12/31/13 to 6/30/15, 1% of the Composite assets were in a non-fee paying proprietary account. The creation date of this Composite is November 2010 and the inception date is 7/31/10. For the performance period presented, investment professionals may have changed or departed, none of which in the Firm's view have altered the composite's strategy. A complete list including composite descriptions, pooled fund descriptions for limited distribution pooled funds, and broad distribution funds managed by the Firm is available upon request. Additional information regarding policies for valuing accounts, calculating performance, and preparing GIPS reports is also available upon request via email to CompositeRequests@alliancebernstein.com. TOTAL RETURN METHODOLOGY AND FEE STRUCTURE- Performance results are shown in two formats. Pure gross returns do not reflect the deduction of any trading costs, fees or expenses. Pure gross-of-fees returns are supplemental to net returns. Net returns are calculated by subtracting the highest applicable Managed Account fee (1.5% on an annual basis, or 0.125% on a monthly basis) on a monthly basis from the pure gross Composite monthly return. The Managed Account fee includes transaction costs, custodial service fees and investment advisory fees. RATE OF RETURN-No representation is made that the performance shown in this presentation is indicative of future performance. An account could incur losses as well as generate gains. Performance figures for each account are calculated monthly on a trade-date basis using a total rate-of-return calculation. Investment transactions are recorded on a trade date basis, and interests and dividends are recorded on accrual basis, net of withholding taxes, if applicable. Investments in securities are valued in accordance with the Firm's Valuation Policies and reflect a good faith estimate of fair value levels for all investments, which may not be realized upon liquidation. The fair valuation process requires judgment and estimation by the Firm. The gross-of-fee returns reflect the deduction of trading costs. The Composite returns are calculated based on the asset-weighted monthly composite constituent account returns where the weight is the beginning fair value of the accounts. DISPERSION-Internal dispersion is calculated using the asset-weighted standard deviation of all accounts included in the Composite for the entire year; it is not presented for periods less than one year or when there were fewer than two accounts in the Composite for the entire year. The three-year annualized ex post standard deviation measures the variability of the Composite and the benchmark returns over the preceding 36-month period; it is not presented for periods of less than three years. The benchmark, which is not covered by the report of independent verifiers, is the Bloomberg Barclay Managed Money Intermediate Municipal Bond Index. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.