AB STRATEGIC RESEARCH BALANCED PORTFOLIO
Separately Managed Accounts

As the second quarter drew to a close, a resurgence of the novel coronavirus in the US threatened to blunt the nascent global economic recovery and the equity market's positive momentum.

MARKETS CLIMB A WALL OF WORRY
There is an old saying on Wall Street that “bull markets climb the wall of worry.” That wall seemed particularly high in 2Q:20. The 60% S&P 500 Index/ 40% Bloomberg Barclays Government Corporate Index rose 13.66% during the quarter and is 1.37% ahead for the year-to-date period. While stocks rebounded, investors confronted four major and mutually reinforcing crises.

The first was, and is, the global health crisis brought about by the coronavirus. As of July 2, 10.7 million people have been infected and 516,392 have died. Without an effective treatment or vaccine, governments around the world were forced to temporarily lock down nonessential parts of their economies to halt the spread of the disease.

Extensive lockdowns contributed to the second crisis: the global economic crisis. The World Bank estimates that global GDP will decline more than 5% in 2020, which will rank as one of the four most significant economic contractions in the last 150 years. The International Labour Organization estimates that the COVID-19-related drop in working hours is equivalent to 305 million full-time jobs compared to pre-crisis levels.

The global health and economic crises helped fuel the third: the unfolding social crisis. The killing of George Floyd in Minneapolis was the spark that unleashed a wave of worldwide demonstrations demanding racial equality and justice. Companies, governments and individuals have been compelled to reexamine their own behaviors and culpability in creating social inequities of all kinds.

Though the final crisis may have received less attention over the past few months, it is potentially the most serious of all. While most of us were primarily focused on climbing virus numbers, the three months ended May 2020 were the second warmest in the 141 years of National Oceanic and Atmospheric Administration data. The climate crisis threatens global health and global economies, and disproportionately impacts the more marginalized members of society.

DON’T FIGHT THE FED!
Investors were also reminded of another old expression on Wall Street during 2Q:20: “Don’t fight the Fed.” Central bankers worldwide moved quickly and aggressively this year to provide massive liquidity to the markets and combat these simultaneous crises. The US Federal Reserve (the Fed), for example, almost doubled its balance sheet to $8 trillion and is expected to keep interest rates near zero for the foreseeable future. In June, Chairman Jerome Powell noted, “We’re not even thinking about thinking about raising rates.”

Governments have also helped stabilize markets through aggressive fiscal stimulus measures, such as expanded unemployment benefits. On a global basis, various fiscal measures enacted this year approximate 15% of GDP. The combined effect of monetary and fiscal stimulus approaches a massive 30% of GDP.

There is evidence that these actions are helping economic activity. Emerging green shoots include declining unemployment claims, rising new home sales, rebounding PMI’s and improving business-confidence surveys in many countries around the world.
Unprecedented stimulus and encouraging economic data points have strengthened arguments that a V-shaped economic recovery is under way and has fueled asset prices. The “Powell Put” appears to be in full effect.

**BUYER BEWARE**

We believe that some of this optimism may be misplaced. First, many of the positive economic headlines capture month-to-month changes in the data. Given the historic depth of this recession, almost any activity produces impressive sequential results that can overstate the real strength of the recovery. For example, the US Department of Commerce reported that US retail sales rose by a record of nearly 18% in May. While this is undoubtedly a step in the right direction, investors should remember that those sales are compared to April’s deficit of almost 15%, which was the largest monthly decline in the history of the data. Ultimately, investors must consider both the trend and the level of the data.

Second, we have not yet solved the health crisis that is at the root of the economic crisis. While the Nasdaq reached a new record high in late June, so, too, did the number of new COVID-19 cases in many parts of the world. The US, for example, reported a record 48,365 new daily infections on June 30. This acceleration in the spread of the disease might not spur another round of mandated lockdowns, but it is sure to slow any budding economic recovery. Almost half of US states, including Texas and Florida, have now rolled back reopening plans due to surging virus numbers.

Finally, while government support and the “Powell Put” have helped stabilize markets in the short term, the ultimate consequences of rapidly expanding central bank balance sheets and rising deficits are largely unknown. Higher corporate and individual tax rates, rising inflation, slower growth and sustained low rates are all reasonable possibilities that have troubling longer-term implications for financial markets.

**PORTFOLIO UPDATE**

The Strategic Research Balanced Portfolio increased in absolute terms and outperformed its benchmark, the 60% S&P 500 Index/40% Bloomberg Barclays Government Corporate Index, for both the quarter and year to date. The portfolio also exceeded the benchmark in each month of 2020.

When the market sold off in 1Q:20, our portfolio’s exposure to high-quality attributes, such as strong environmental, social and governance (ESG) ratings, clean balance sheets, and higher-than-normal cash levels, was rewarded. When stocks rebounded sharply in 2Q:20, however, our cash holdings detracted from performance and stronger ESG ratings failed to provide a performance tailwind. Our relative outperformance was driven by positive stock selection in stronger and more resilient industries and the impact of opportunistic deployment of cash near the March lows. Overall, the portfolio captured less downside as markets declined, but captured more upside as they rebounded.

The opportunistic purchase of Tesla in late March also benefited performance meaningfully in the quarter. Tesla, from the Climate theme, is the world’s leading electric vehicle (EV) manufacturer. The company’s 1Q:20 profitability exceeded expectations, and production restarted in the US in May. EV trends year to date remain positive, with increasing evidence that consumers are emerging from the COVID-19 crisis willing to buy EVs, signaling an inflection in EV adoption. Announced stimulus plans in Europe and China will provide further support for new EV purchases.

Payment technology firms Square and PayPal, both from the Empowerment theme, were also meaningful contributors. Payment technologies are key to expanding access to finance to both marginalized individuals and small businesses. Their products allow merchants to accept digital payments in-store or online, and manage operations more efficiently. They also provide individuals with digital wallet

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*Performance based on a model portfolio as of 06/30/20. Portfolio holdings, characteristics and weightings will vary over time. Contact your financial advisor for a complete list of portfolio holdings.
capabilities and peer-to-peer money-transfer services. Each of these companies benefited from the accelerating shift to e-commerce activity during the COVID-19 crisis, which drove higher transaction volumes.

Detractors in the quarter included Apple, from the Climate theme, due to its underweight position in our portfolio. Apple shares rallied, along with the broader technology sector, on optimism about a potential economic reacceleration as well as a positive demand outlook for its 5G-equipped phones in fall 2020.

Water technology firm Xylem, from the Climate theme, underperformed due to concerns over slowing demand from both corporate and municipal customers. We believe near-term results will prove more resilient than the market expects and that the adoption of smart water infrastructure technologies will benefit the company in the longer term.

American Water Works, from the Climate theme, also declined. While the water utility company saw increased demand for its services from residential customers, which comprise most of its client base, commercial and industrial demand weakened due to temporary business closures. The company may benefit in the longer term if municipal budget stress encourages further industry rationalization.

OUTLOOK CONTINUES TO FAVOR SECULAR WINNERS AND QUALITY
Markets can always continue to climb the wall of worry in the second half of the year. Stimulus measures may continue to provide enough support to economies until earnings can convincingly bottom and begin to turn higher. And of course, a successful vaccine may be developed, which would significantly boost consumer and business confidence.

We are somewhat less sanguine about the near-term outlook and continue to believe that a more defensive, quality-growth positioning in combination with a focus on companies taking a stronger stakeholder-centered approach is appropriate.

Quality factors such as high returns on capital and clean balance sheets will continue to command a premium in this uncertain environment. Growing social awareness and activism will continue to favor companies with a stronger stakeholder orientation. And a slower-than-expected, uneven economic recovery and lower interest rates will continue to favor secular growth over cyclical value.

Many thematic investing trends offer compelling secular growth potential that has been accelerated by the COVID-19 crisis. Themes such as healthcare innovation, broadening healthcare access, digital payments, resource efficiency and the shift to e-commerce have powerful tailwinds and a greater ability to deliver results in an uncertain macro environment. These secular growth trends are captured by our three primary investment themes—Health, Climate and Empowerment—and should allow our portfolio to participate as equity markets rise.

I hope everyone enjoys a happy and safe summer,

Dan Roarty and Ben Ruegsegger

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UMF-128605-2020-07-10
AB Performance Disclosure
Strategic Research Balanced (Non CISH) (MA) Composite (in US Dollar)

<table>
<thead>
<tr>
<th>Period</th>
<th>Composite Assets (USD millions)</th>
<th>Composite Accounts at End of Period</th>
<th>Net Return (%)</th>
<th>Pure Gross Return (%)**</th>
<th>Internal Composite Dispersion (%)</th>
<th>Composite 3 Year Ann. Ex Post Standard Deviation (%)</th>
<th>Benchmark 3 Year Ann. Ex Post Standard Deviation (%)</th>
<th>Total Firm Assets (USD billions)</th>
<th>% of Managed Accounts</th>
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<td>2018</td>
<td>361.7</td>
<td>1,114</td>
<td>(4.76)</td>
<td>(1.90)</td>
<td>0.19</td>
<td>7.21</td>
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<td>15.68</td>
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<td>3.25</td>
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<td>15.73</td>
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<tr>
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<td>13.74</td>
<td>12.40</td>
<td>418.8</td>
<td>17.74</td>
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*annualized through most recent year-end
** Pure Gross Return is supplemental information.

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The benchmark, which is not covered by the report of independent verifiers, is a 60/40 blend of the S&P 500 Index and the Bloomberg Barclays Government Credit Index. The benchmark is weighted monthly and the monthly returns are geometrically linked to calculate cumulative and/or annualized rates of return for longer time periods. Prior to 7/1/15 the benchmark was a 50/50 blend of the S&P 500 Index and the Bloomberg Barclays Government Credit Index. The change to the benchmark was made to more appropriately reflect the current asset allocation of the service and has been applied retroactively since the inception of the Composite. There has been no change to the investment process or universe of securities from which the portfolio is constructed.