AB SUSTAINABLE INTERNATIONAL THEMATIC FUND

Advisor Class: AWPYX

International equity markets ended lower after a highly volatile quarter. The MSCI All Country World Index (ACWI) ex US declined 10% over the full quarter, with the benchmark experiencing an early double-digit rally into mid-July followed by a larger double-digit decline. The index finished the quarter down more than 26% year to date, firmly reentering bear market territory. Weakening macro indicators suggest a continued difficult backdrop for stocks.

"Peak Inflation" Optimism Quickly Fades

Initial optimism about easing inflationary pressures sparked a brief decline in interest rates and a summer equity rally, especially for longer-duration growth stocks, whose valuations have been pressured by higher rates. The year-over-year July US CPI print was 8.5%, which was historically high but below the 8.7% consensus. The hope was that having reached "peak inflation," central banks might pivot away from their aggressive tightening trajectories. The US 10-year yield declined from 3.5% to 2.6%, sparking a 13% rally in the MSCI ACWI and an 18% gain in the ACWI Growth Index.

But those gains were short-lived due to the persistence of stubbornly high inflation readings—the August CPI print was higher than expected—and continued hawkish central bank rhetoric. US Federal Reserve Chair Jerome Powell noted in his Jackson Hole speech in August that restoring price stability will require a "sustained" period of below-trend growth and a weaker labor market. "While higher interest rates, slower growth and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses."

On the back of those comments, the 10-year yield quickly rose to a peak of almost 4% by quarter-end and stocks dropped almost 20% from their August highs.

Rising Recession Risk

The fundamental challenge for equity markets is that in order to tame inflation, central banks are expected to keep interest rates high enough for long enough to cause significant economic damage that is not yet reflected in consensus estimates.

Interest rates are perhaps the best leading indicator of the business and corporate earnings cycle. Historically, changes in rates lead PMIs by about 18 months. Not surprisingly, global leading indicators are starting to reflect central bank tightening and turning down at a quickening pace. By the end of the third quarter, almost 60% of global manufacturing PMIs were below 50, which is the level that indicates economic contraction. This represents a significant deterioration from the second quarter, when only 14% signaled contraction.

Substantial Downside Risk to Corporate Earnings

Although they are starting to decline, corporate earnings expectations remain obstinately high against this macro deterioration. Markets still expect above-trend earnings growth in 2023 (8% growth in the US and 6% globally) and 2024 (8% growth both in the US and globally), despite rapidly declining PMIs.

If global economies were to fall into recessionary territory, there could be meaningfully negative earnings revisions from here. Earnings typically fall 20% or more during such environments. But whether or not we fall into a deeper recession, we are inclined to believe Chair Powell's expectation of a sustained period of below-trend growth and therefore expect a further contraction in earnings estimates in the months and quarters ahead.

Equity markets are highly correlated with PMIs and typically do not find a bottom until PMIs do. The historic relationship between changes in interest rates and leading indicators such as the PMIs suggests that a convincing bottom in earnings and stock prices is not yet in sight.

Fund Performance

For the third quarter, the AB Sustainable International Thematic Fund declined in absolute terms but outperformed its benchmark, the MSCI ACWI ex US. Year to date, the Fund delivered negative absolute returns and underperformed its benchmark. The MSCI ACWI ex US returned –9.91% and –26.50%, respectively.

Vestas Wind Systems, from our Climate theme, manufactures and services wind turbines and wind farms, which help increase renewable energy penetration in the global energy mix and reduce carbon emissions. The company contributed, as pricing power improved following a challenging year for profit margins resulting from supply chain disruptions. The firm reported success in passing along cost input increases to customers as demand continued to grow, largely driven by an increase in renewables investment in Europe. Recently passed beneficial legislation in the US should continue to support demand growth for wind energy.

Bank Mandiri, from our Empowerment theme, one of Indonesia's largest commercial banks, contributed during the quarter. The company continues to experience strong growth in banking fundamentals. Loan growth accelerated to 12%, helped by growth in financial inclusion products, with microlending up 12% and small and medium-size enterprise lending up 12.5%. Rising interest rates supported net interest margins, which grew 32 basis points to 5.37%. Credit quality remains healthy, and profitability increased with the return on equity at 18.4%. Management raised its guidance for lending from 8% to 11% for the coming year, and net interest margins are expected to be in the 5.1%–5.5% range.

Flex, from our Climate theme, is a manufacturer of products that enable connectivity, safety and innovation for societies around the world through programs that involve waste reduction, product reuse and overall environmental sustainability. The company contributed after posting strong earnings results detailing success in its superior supply chain execution and intentional exposure to key secular growth trends such as data centers, smart and electric vehicles (EVs), and medical care. The company raised its full-year revenue outlook, even while assuming weakness in the back half of the year that has yet to materialize. Management noted good visibility into the next two quarters and has intentionally assumed some weakness into the March 2023 quarter for a potential consumer slowdown, which de-risks the outlook slightly.

STERIS, from our Health theme, is a leading provider of infection-prevention and sterilization products and services for hospitals, medical devices and drug manufacturing. The company detracted, as revenues continued to be negatively affected by supply chain pressures and slower-than-expected recovery in surgical procedures in the US. The slow recovery in these procedures is due to multiple inputs such as nurse and hospital staff availability. The company expects these to be temporary issues. Shares also came under pressure late in the quarter following a negative litigation outcome against a peer in the outsourced medical-device sterilization business.

Chr. Hansen, from our Health theme, provides specialty ingredients to improve the nutritional profiles of various foods and beverages, in addition to leveraging microbial solutions to protect crop yields and reduce food waste. The company detracted as investors became concerned about some softness reported by other ingredients peers, specifically within probiotics. Earlier in the year, management had already alluded to softer year-over-year growth in the back half of 2022 given the company's strong performance in the previous year. The compression of consumer incomes globally from higher energy and food costs has only exacerbated worries about weaker volumes this year.

AIA Group, from our Empowerment theme, is the leading life and health insurer in Asia, providing $2 trillion assured with 30 million policies; AIA is targeting to engage one billion people to live healthier, longer and better lives by 2030. The company detracted, as new business sales continue to be affected by the strict COVID-19 lockdowns in China, AIA's largest market. New life and health insurance products sales in China fell by 24% during the quarter, but we expect a strong rebound in sales once restrictions are relaxed. Other geographies experienced strong momentum, with Malaysia and Thailand seeing growth in new business of 24% and 21%, respectively. AIA continues to maintain a strong balance sheet with the prescribed capital requirement of 277%.

Outlook: Sustainable Themes Offer Growth and Resilience

Economic growth is slowing, and our base case forecasts a higher frequency of negative earnings revisions deep into 2023. Companies with stronger fundamentals and higher-quality attributes such as low debt levels and higher returns typically perform best during such periods. Lower-quality attributes such as weak balance sheets and higher cyclicality typically lag, though they outperformed strongly in the early 2022 value rotation. Our approach favors companies with higher quality and growth attributes.

Countries representing 90% of the world's GDP have made significant pledges to reduce emissions and use less traditional energy by midcentury. Importantly, significant financial capital often follows such commitments. Companies that provide solutions to help countries achieve these goals—including clean energy generation, transportation and resource-efficiency solutions—have strong multidecade growth opportunities. Today, a massive shift toward safer and more energy-efficient EVs is under way. Health-related themes such as innovative and more complex medicines, broader access to healthcare, and food security and clean water all benefit from similarly attractive long-term demand. As the global population swells by midcentury, we will continue to face massive empowerment-related challenges in regard to housing, educating, transporting, employing and building the economic resilience of roughly two billion additional people.

As thematic investors, we are tasked with finding the common threads that stretch through market cycles. Our sustainable themes target massive investment opportunities that exist today and span decades into the future. Importantly, companies providing solutions to these persistent and growing challenges should experience more resilient demand for their products and services than those that are reliant upon cyclical demand, in our view. We expect this to translate into more resilient earnings, which investors tend to value over time.

Forecasting short-term twists and turns in the economic cycle with any accuracy or consistency has always been challenging. It's been even tougher to consistently predict how market participants will react—or overreact—to changes in the real economy. One advantage of sustainable investing is that we don't have to call those short-term twists and turns correctly to create value over time. Instead, we focus on the fundamental strength and long-term appeal of our sustainable themes. Sustainable themes have clear longer-term tailwinds, many of which have only been strengthened since the start of the COVID-19 pandemic in 2020.

As always, thank you for your continued support.

Dan Roarty

PORTFOLIO INFORMATION

Class	Ticker	Inception Date
A	AWPAX	6/2/94
C	AWPCX	2/8/95
Advisor	AWPYX	10/1/96
I	AWPIX	3/1/05
Z	AWPZX	7/26/21

Portfolio Characteristics	Portfolio	Benchmark[1]
Total Number of Holdings	50	2264
P/E Ratio (Stock Price/Earnings; last 12 mo)	18.02x	12.48x~
Forward P/E Ratio (2022)	16.01x	10.95x
ROE (Return on Equity; next 12 mo)	17.47%	14.29%
Weighted Market Cap ($ Billions)	59.1	68.4
EPS (Earnings per Share) Growth Rate (2022/2021)	15.40%	11.47%
EPS Growth (5 yr history)	14.55%	13.40%
Sales Growth (5 yr history)	8.68%	8.64%

Portfolio Statistics	
Beta (3 yr)[2]	1.02
Sharpe Ratio (3 yr)[3]	-0.01
Standard Deviation (3 yr)[4]	20.35
Alpha (3 yr)[5]	2.27

Country Breakdown[6]	
United States	15.76%
Switzerland	9.09
France	8.38
United Kingdom	7.49
Netherlands	5.48
India	5.36
Ireland	4.80
Sweden	4.70
Germany	4.66
Other	34.28

Top Ten Holdings[6]		
Company	**Sector**	
HDFC Bank Ltd.	Financials	2.94%
Partners Group Holding AG	Financials	2.75
Nestle SA	Consumer Staples	2.63
Roche Holding AG	Healthcare	2.59
Danaher Corp.	Healthcare	2.50
STERIS PLC	Healthcare	2.49
Accenture PLC	Information Technology	2.43
NXP Semiconductors	Information Technology	2.43
Apollo Hospitals Enterprise	Healthcare	2.42
STMicroelectronics NV	Information Technology	2.41

Sector Breakdown[6]	Portfolio	Benchmark[1]
Information Technology	22.57%	10.75%
Financials	21.63	20.68
Healthcare	20.00	9.60
Industrials	7.67	12.05
Consumer Staples	6.35	9.36
Materials	6.34	8.17
Energy	2.06	6.17
Utilities	2.05	3.36
Consumer Discretionary	1.45	11.44
Communication Services	1.04	6.05
Real Estate	–	2.37
Other	8.84	–

Net Currency Exposure[6]	
Euro	17.64%
Japanese Yen	14.15
Chinese Yuan Renminbi (Offshore)	9.23
Pound Sterling	8.38
Canadian Dollar	8.06
Other	42.54

Top Five Contributors[7]	Top Five Detractors[7]
Vestas Wind Systems	STERIS PLC
Apollo Hospitals Enterprise	Chr. Hansen Holdings
Bank Mandiri	Orsted
Tecan Group	Koninklijke Philips
Flex Ltd.	AIA Group

1 MSCI AC World ex-US Index (net).
2 Beta measures a fund's volatility relative to its benchmark.
3 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.
4 Standard Deviation is a measure of the dispersion of a portfolio's return from its mean.
5 Alpha is the risk-adjusted measurement of 'excess return' over the benchmark.
6 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.
7 Contribution based on absolute returns as of quarter end.

QUARTERLY AVERAGE ANNUAL TOTAL RETURNS AS OF 09/30/22: ADVISOR CLASS PERFORMANCE

	QTD	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception	Expense Ratios as of 10/29/21	
Sustainable International Thematic†	-9.61%	-35.16%	-32.92%	0.32%	-0.23%	3.38%	5.44%	Gross	0.86%
MSCI AC World ex-US Index (net)	-9.91	-26.50	-25.17	-1.52	-0.81	3.01	4.23	Net‡	–
MSCI AC World ex-US Index (gross)	-9.80	-26.18	-24.79	-1.07	-0.34	3.48	4.62		
MSCI World ex-US Index (net)	-9.20	-26.23	-23.91	-1.21	-0.39	3.62	4.07		
Morningstar Foreign Large Growth Category	-9.43	-34.43	-32.91	-1.18	0.28	4.40	4.13		

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. Returns for other share classes will vary due to different charges and expenses. Performance assumes reinvestment of distributions 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.

† The Fund's Advisor Class share inception date is 10/1/96 and is the date used to calculate since inception annualized performance.

‡ 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. Absent reimbursements or waivers, performance would have been lower.

MSCI AC (All Country) World ex-US Index (free float-adjusted market capitalization weighted) represents the equity market performance of developed and emerging markets, excluding the United States. MSCI World ex-US Index (free float-adjusted market capitalization weighted) represents the equity market performance of developed markets, excluding the United States. Net index reflects the reinvestment of dividends. MSCI makes no express or implied warranties or representations, and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices, any securities or financial products. This report is not approved, reviewed or produced by MSCI. 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.

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. **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. **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. **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. **ESG Risk:** Applying ESG and sustainability criteria to the investment process may exclude securities of certain issuers for nonfinancial reasons and, therefore, the Fund may forgo some market opportunities available to funds that do not use ESG or sustainability criteria.