AB MUNICIPAL PORTFOLIOS

NATIONAL PORTFOLIO Class A: ALTHX / Class C: ALNCX / Advisor Class: ALTVX
HIGH INCOME MUNICIPAL PORTFOLIO Class A: ABTHX / Class C: ABTFX / Advisor Class: ABTYX
INTERMEDIATE DIVERSIFIED MUNICIPAL PORTFOLIO Class A: AIDAX / Class C: AIMCX / Advisor Class: AIDYX
MUNICIPAL BOND INFLATION STRATEGY Class A: AUNAX / Class C: AUNCX / Advisor Class: AUNYX

MARKET OVERVIEW

With the US economy moving closer to a full reopening, equity markets continued to rally while interest rates and inflation expectations rose in anticipation of stronger growth ahead. The yield on the 10-year US Treasury rose 83 basis points (b.p.) this year to its current level at 1.75%. On the bright side for municipal investors, the 10-year AAA municipal-bond yield rose just 41 b.p. to its current level of 1.12%—only around half as much as the 10-year Treasury rate.

Municipals posted negative absolute quarterly returns but very strong relative returns compared to other fixed-income asset classes such as US Treasuries and US investment-grade corporates. For the quarter, the Bloomberg Municipal Bond Index returned –0.35%, outperforming the Bloomberg Barclays Treasury and Corporate Indices, which returned –4.25% and –4.65%, respectively.

The two main catalysts behind the municipal market's outperformance were strong investor demand and generally improving fundamentals among municipal issuers. In the first quarter, investors poured $32 billion into the market—on pace for a new calendar-year record—which marks 11 consecutive months of inflows following the dramatic sell-off in municipals associated with the 2020 pandemic.

Demand for income was very apparent during the quarter as BBB-rated and high-yield credit spreads compressed 42 b.p. and 58 b.p., respectively, leading to outperformance by those credit indices versus high-grade counterparts. The BBB-rated index returned 1.28%, and the high-yield index posted returns of 2.11% against the AAA-rated index, with a –0.90% return.

Investors' concerns around issuer credit fundamentals were calmed by a combination of much- better-than-expected tax-revenue collections as well as a bevy of stimulus for municipal issuers from the federal government. Municipalities benefited from three separate stimulus packages. First, the CARES Act supplied a much-needed $347 billion to issuers and was supplemented by a package passed in late-December 2020 that included $167 billion appropriated for various municipal sectors. Finally, the American Rescue Plan Act supplied a whopping $649 billion for issuers. Public rating agencies have reacted to the now-positive credit trends evidenced by S&P's removal of several noteworthy, negative outlooks on large sectors including state and local government, school districts, mass transits, airports, toll roads and specific issuers such as the State of Illinois.

FUND PERFORMANCE COMMENTARY

The Intermediate Diversified Municipal Portfolio returned 0.24% for the first quarter, outperforming its benchmark, the Bloomberg Barclays 5-Year General Obligation Municipal Bond Index, which returned –0.35%. Our relative overweight to midgrade municipal credit contributed as the country continued its reopening trend and details of the federal economic stimulus emerged. Sector overweights that contributed most for the quarter were in healthcare and toll road/transit. Inflation hedges built into the portfolio through the employment of Consumer Price Index (CPI) swaps added to relative performance as the economy continued to grow.

The National Municipal Income Portfolio returned 0.24% for the first quarter, outperforming its benchmark, the Bloomberg Barclays Municipal Bond Index, which returned –0.35%. Relative outperformance for the quarter was driven by sector selection, individual security selection and relative yield-curve positioning, which contributed slightly. Senior living and toll road/transit sector overweights contributed on a relative basis. Our position in Illinois state general-obligation bonds continued to add to performance. Inflation hedges built into the portfolio through the employment of CPI swaps also contributed to performance as the economy continued to grow.

The High Income Municipal Portfolio returned 1.27% for the first quarter and outperformed its benchmark, the Bloomberg Barclays Municipal Bond Index, which returned –0.35%. Outperformance for the quarter was driven by off-benchmark holdings in municipal credit as well as sector selection and individual security selection. Relative yield-curve positioning detracted. Primary sector contributors were allocations to senior living and primary/secondary education sectors. The portfolio remains overweight midgrade credit, with opportunistic investments in higher-yielding municipal bonds. These allocations added to performance as the economy regained its footing and credit spreads have tightened. For the quarter, inflation hedges built into the portfolio through the employment of CPI swaps contributed to performance as the economy continued to grow.

The Municipal Bond Inflation Portfolio outperformed its benchmark, the Bloomberg Barclays 1–10 Year TIPS Index, largely due to the portfolio's allocation to municipal bonds, which outperformed taxable bonds during the quarter. The yield on the 10-year US Treasury rose 83 b.p. this year to its current 1.75% level. On the bright side for municipal investors, 10-year AAA municipal-bond yields rose just 41 b.p. to the current 1.12% level, only around half as much as the US

Treasury increase. Outperformance was primarily driven by the strategy's overweight to municipal credit, which continued to rebound strongly following the dislocation that took place in March 2020. CPI swaps, generally a more tax-efficient way of achieving inflation protection, contributed to performance on an absolute basis as five-year CPI breakevens rose 44 b.p. from 2.08% to 2.52%. The portfolio today is neutral on duration, overweight midgrade municipal credit and fully hedged to inflation exposure through CPI swaps.

OUTLOOK

During 2021, the Federal Reserve (the Fed) likely will continue providing supportive monetary stimulus, keeping the federal funds rate at zero and continuing quantitative easing (QE). Key takeaways from March's Federal Open Market Committee (FOMC) meeting is that the committee expects to be extraordinarily accommodative for a very long time to come. The FOMC shares the market's view that growth and inflation are likely to rebound as activity surges in 2021, but it does not view that surge in activity as durable. Thus, it expects to continue QE for several quarters to come and leave the policy rate at zero for the foreseeable future. The FOMC fully understands that the near-term outlook is bright. It bumped 2021 growth from 4.2% to 6.5% and 2021 inflation from 1.8% to 2.4%. The Fed Chair Jerome Powell described those moves as "transient," and, despite the upgrades, there were no meaningful changes to the projected policy path nor any meaningful change to the 2022 or 2023 forecasts.

While the first quarter saw a rather drastic rise in US Treasury yields, it is important not to extrapolate that yield increase through the rest of the year. Yields likely have approached the upper band levels for 2021 through the first three months of the year, and while they can move higher than where they finished the quarter, we already have experienced much of the anticipated increase.

With the American Rescue Act now finalized, the Biden administration is shifting its focus to tax reform and a potential infrastructure program. While specific details have yet to be formally proposed, items under consideration include raising the corporate tax rate to 28% from 21% and increasing the income tax rate for individuals earning over $400,000. On the infrastructure side, the Biden administration released a proposed $2.3 trillion American Jobs Plan, which focuses funding for transportation infrastructure, job training and clean energy. The impact on the municipal market will depend not only on the associated tax increases needed to pay for this plan but also the debt needed to be issued. From the debt perspective, we do not anticipate all tax-exempt bonds to be issued but, rather, a combination of traditional tax-exempt bonds and a resurgence of Build America Bonds (BAB). BABs are taxable municipals supported by a federal government interest-rate subsidy. Either way, it is becoming increasingly clear that some form of tax hikes are likely in the future, which should boost demand and provide another tailwind for the tax-exempt asset class.

Finally, with more COVID-19 vaccines being distributed, a return to normalcy is closer, along with further improvements in employment and tax collections. With relatively low yields on high-grade bonds and credit spreads that are still wider than pre-pandemic levels, municipal credit remains attractive. We expect municipal credit to outperform—even in a rising-rate environment—due to higher yields, a steep yield curve and the expectation that credit spreads will narrow as the economy continues to improve. For this reason, we are maintaining our overweight to this part of the market within the portfolio.

PORTFOLIO INFORMATION

NATIONAL PORTFOLIO

Effective Duration[1]: 4.57 years

Quality Breakdown[2,3]	
Highest of S&P/Moody's/Fitch	
AAA	5.64%
AA	29.64
A	22.07
BBB	16.96
BB	4.47
B	0.70
CCC & Below	0.59
Pre-Refunded	4.31
Not Rated	7.29
Short Term Investments	8.33

Industry Breakdown[2]	
Special Tax	10.35%
Toll Roads/Transit	10.10
Healthcare - Not-for-Profit	8.92
Local G.O.	8.14
State G.O.	7.34
Airport	5.71
Investment Companies	5.08
Higher Education - Private	4.37
Pre-Refunded/Escrowed-to-Maturity	4.31
Other	35.68

HIGH INCOME MUNICIPAL PORTFOLIO

Effective Duration[1]: 5.74 years

Quality Breakdown[2,3]	
Highest of S&P/Moody's/Fitch	
AAA	1.51%
AA	6.90
A	17.82
BBB	25.98
BB	10.49
B	1.54
CCC & Below	3.69
Pre-Refunded	2.62
Not Rated	25.78
Short Term Investments	3.67

Industry Breakdown[2]	
Healthcare - Not-for-Profit	15.90%
Tobacco Securitization	8.83
Senior Living	8.81
Special Tax	8.14
Toll Roads/Transit	6.23
State G.O.	5.62
Higher Education - Private	4.70
Local G.O.	3.96
Revenue - Miscellaneous	3.76
Other	34.05

1 Effective Duration is a measure of the sensitivity of an asset or portfolio's price to interest rate movements; **2** Holdings are expressed as a percentage of total investments and may vary over time; **3** 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 fund 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 Rated category includes bonds that are not rated by a Nationally Recognized Statistical Rating Organization.

INTERMEDIATE DIVERSIFIED MUNICIPAL PORTFOLIO

Effective Duration[1]: 3.55 years

Quality Breakdown[2,3]	
Highest of S&P/Moody's/Fitch	
AAA	7.86%
AA	41.08
A	29.68
BBB	11.25
BB	2.07
B	0.24
CCC & Below	0.03
Pre-Refunded	3.30
Not Rated	1.04
Short Term Investments	3.45

Industry Breakdown[2]	
State G.O.	13.41%
Toll Roads/Transit	10.89
Special Tax	8.81
Money Market	8.54
Prepay Energy	8.02
Healthcare - Not-for-Profit	7.64
Local G.O.	6.84
Water & Sewer	4.84
Airport	4.80
Other	26.21

MUNICIPAL BOND INFLATION STRATEGY

Effective Duration[1]: 2.23 years

Quality Breakdown[2,3]	
Highest of S&P/Moody's/Fitch	
AAA	7.46%
AA	33.16
A	28.70
BBB	11.47
BB	2.96
B	0.05
CCC & Below	0.09
Pre-Refunded	5.68
Not Rated	2.43
Short Term Investments	8.00

Industry Breakdown[2]	
State G.O.	11.66%
Revenue - Miscellaneous	9.25
Airport	8.47
Toll Roads/Transit	8.32
Special Tax	8.04
Healthcare - Not-for-Profit	7.65
Investment Companies	6.43
Prepay Energy	6.29
Local G.O.	6.09
Other	27.80

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A WORD ABOUT RISK

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. **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. **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. **Inflation Risk:** Prices for goods and services tend to rise over time, which may erode the purchasing power of investments. **Leverage Risk:** Trying to enhance investment returns by borrowing money or using other leverage tools—magnify both gains and losses, resulting in greater volatility. **Liquidity Risk:** The difficulty of purchasing or selling a security at an advantageous time or price. **Local Economy Risk:** This portfolio may contain municipal securities issued by the Commonwealth of Puerto Rico as well as other local governments whose current economic conditions could exacerbate the risks associated with investing in these securities. **Market Risk:** The market values of the portfolio's holdings rise and fall from day to day, so investments may lose value. **Municipal Market Risk:** Debt securities issued by state or local governments may be subject to special political, legal, economic and market factors that can have a significant effect on the portfolio's yield or 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.

QUARTERLY AVERAGE ANNUAL TOTAL RETURNS AS OF 03/31/21: ADVISOR CLASS PERFORMANCE

NATIONAL PORTFOLIO

		QTD	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception†	Expense Ratios as of 1/29/21
National Portfolio†		0.11%	0.11%	8.26%	4.66%	3.48%	4.73%	4.61%	Gross 0.53%
Bloomberg Barclays Muni Bond Index		-0.35	-0.35	5.51	4.91	3.49	4.54	4.57	Net‡ 0.50%
Morningstar Muni National Intermediate Category		-0.20	-0.20	5.77	4.27	2.89	3.82	3.68	
SEC Taxable-Equivalent Yield at 35% (30-day)*^	1.60%								
SEC Taxable-Equivalent Yield at 37% (30-day)*^	1.65%								
SEC Current Yield (30-day)*‡ 1.04% Unsubsidized Yield 1.01%									

HIGH INCOME MUNICIPAL PORTFOLIO

		QTD	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception†	Expense Ratios as of 1/29/21
High Income Municipal Portfolio†		1.22%	1.22%	13.92%	6.28%	5.15%	7.24%	6.66%	Gross 0.60%
Bloomberg Barclays Muni Bond Index		-0.35	-0.35	5.51	4.91	3.49	4.54	4.26	Net‡ –
Morningstar High Yield Muni Category		1.14	1.14	10.94	5.27	4.38	6.13	5.51	
SEC Taxable-Equivalent Yield at 35% (30-day)*^	3.55%								
SEC Taxable-Equivalent Yield at 37% (30-day)*^	3.67%								
SEC Current Yield (30-day)*‡ –% Unsubsidized Yield 2.31%									

INTERMEDIATE DIVERSIFIED MUNICIPAL PORTFOLIO

		QTD	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception†	Expense Ratios as of 1/29/21
Intermediate Diversified Muni Portfolio†		0.14%	0.14%	6.20%	3.97%	2.43%	2.78%	3.18%	Gross 0.43%
Bloomberg Barclays 5-Yr GO Muni Bond Index		-0.35	-0.35	4.29	3.88	2.45	2.77	2.67	Net‡ –
Morningstar Muni National Short Category		0.01	0.01	3.01	2.24	1.55	1.60	2.02	
SEC Taxable-Equivalent Yield at 35% (30-day)*^	0.82%								
SEC Taxable-Equivalent Yield at 37% (30-day)*^	0.84%								
SEC Current Yield (30-day)*‡ –% Unsubsidized Yield 0.53%									

MUNICIPAL BOND INFLATION STRATEGY

		QTD	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception†	Expense Ratios as of 1/29/21
Municipal Bond Inflation Strategy†		1.99%	1.99%	14.18%	4.27%	3.27%	2.66%	2.65%	Gross 0.60%
Bloomberg Barclays 1-10 Year TIPS Index		0.06	0.06	8.12	5.09	3.41	2.64	2.90	Net‡ 0.50%
Morningstar Muni National Short Category		0.01	0.01	3.01	2.24	1.55	1.60	1.53	
SEC Taxable-Equivalent Yield at 35% (30-day)*^	1.11%								
SEC Taxable-Equivalent Yield at 37% (30-day)*^	1.14%								
SEC Current Yield (30-day)*‡ 0.72% Unsubsidized Yield 0.64%									

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 Portfolios 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 National Portfolio's Advisor Class share inception date is 8/6/08, and is the date used to calculate since inception annualized performance.
The High Income Municipal Portfolio's Advisor Class share inception date is 1/26/10 and is the date used to calculate since inception annualized performance.
The performance for Intermediate Diversified Municipal Portfolio's Advisor Class shares prior to 6/26/15, the share class's inception date, reflects Class A share performance, adjusted for differences in operating expenses. The inception date of the Class A shares is 2/1/02.
The Municipal Bond Inflation Strategy's Advisor Class share inception date is 1/26/10 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. This waiver extends through September 30, 2021 for the National Portfolio, and January 31, 2022 for the Municipal Bond Inflation Strategy, and may be extended by the Adviser for additional one-year terms. Absent reimbursements or waivers, performance would have been lower.

* Yields for other share classes will vary due to different expenses. Unsubsidized SEC yield is calculated using the total expense ratio excluding any fee waivers.

^ The taxable-equivalent yield is based on SEC yields and the stated marginal federal income tax rate and the maximum state taxes, where applicable.

Bloomberg Barclays Municipal Bond Index represents the performance of the long-term tax-exempt bond market consisting of investment-grade bonds. Bloomberg Barclays 5-Year GO Municipal Bond Index represents the performance of long-term, investment-grade tax-exempt bonds with maturities ranging from four to six years. Bloomberg Barclays 1-10 Year TIPS Index measures the performance of intermediate (1-10 year) US Treasury inflation-protected securities. 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.

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