



ALLIANCEBERNSTEIN®

2021

Responsibility Report



A Word from Our Chief Responsibility Officer



Michelle Dunstan

AB Chief Responsibility Officer
Senior Investment Advisor, Global ESG
Improvers Strategy

At AB, we're Fully
Invested in being a
responsible firm—both
in how we act and
how we invest on
behalf of our clients.

We believe that being a responsible investor begins with being a responsible company, and in 2021 we took great strides to invest in our own corporate responsibility practices and our responsible investing efforts.

Early in 2021, we hired our Director of Corporate Responsibility, whose first endeavor was to articulate AB's corporate purpose by engaging hundreds of employees, clients and AB Board members across the firm. We defined a purpose statement that is authentically AB—pursue insight that unlocks opportunity—and something you'll learn more about later in this report.

We also named Joan Lamm-Tennant the new chair of our Board of Directors. Joan brings extensive risk-management and capital advisory experience, and is deeply committed to corporate responsibility, having previously founded and led Blue Marble Microinsurance, a purpose-driven insurtech firm providing insurance to underserved communities.

Demonstrating our commitment to diversity and inclusion (D&I), we received a perfect score on the Human Rights Campaign Foundation's Corporate Equality Index related to LGBTQ workplace equality for the sixth straight year. We continue to champion D&I in our hiring and retention practices, making progress on our Drive to 25 ambition, which aims to increase AB's underrepresented populations by 2025.

Turning to our responsible investing efforts, we deepened our partnership with leading climate scientists at the Columbia Climate School, opening up our renowned Climate Change and Investment Academy curriculum to clients and becoming the founding member of the Corporate Affiliate Program at the Columbia Climate School. True to AB's history as a deep, fundamental research house, the next phase of our partnership will feature AB investors and Columbia climate scientists collaborating on research projects that aim to advance climate science while also informing our understanding of climate risks and opportunities in our investment activities. We plan to share our findings through thought leadership, webinars and other events.

Embracing the role we play as responsible investors, we conducted our second annual ESG engagement campaign in 2021, targeting issuers for engagement on the topics of incorporating ESG metrics in executive compensation plans, adopting climate risk goals and disclosures, and assessing modern slavery risks. In 2022, our campaign will encompass action-focused engagements on the most material ESG risks facing issuers. We continue to believe that we should use our position as shareholders and bondholders to effect positive change for stakeholders.

These are just a few highlights of our 2021 accomplishments—all as we continued to navigate an uncertain world of hybrid working and changing political, policy and regulatory developments. I'm looking forward to seeing our momentum continue in 2022.

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Our Purpose: Pursue Insight That Unlocks Opportunity

At AB, we strive to develop original insight, build long-term relationships, uphold our fiduciary responsibility, and speak with courage and conviction—beliefs and behaviors we've committed to since our beginnings. These notions are foundational to us, and they guide our research and investment-management practices for clients around the world.

In 2021, we codified these ideas into a formal purpose and shared values that guide our decisions and actions—the animating forces behind what we do and how we do it. It was important to make these ideas explicit to articulate what makes our culture distinctive and to create clarity for future action.

We initiated a firmwide collaborative effort to ideate and define our authentic purpose. To reach this goal, we interviewed members of our Board of Directors and Operating Committee and surveyed more than 1,600 employees. We wanted to gain their perspective on the meaning of purpose and how that concept has been shaped by their own experiences at AB. Our purpose statement emerged from this feedback, and we believe that it's both foundational and aspirational: *pursue insight that unlocks opportunity*.

Our purpose encompasses several key elements that are fundamental to AB's mission and core values. When we consider our primary role as an active manager, we integrate our purpose into our practices and priorities in many ways.

- **Pursuit** stakes our claim as an active manager. We're defined by our desire to seek new ideas and original solutions, and we're always striving to do better.
- **Insight** is distinctive knowledge delivered with conviction. It's what makes us a thought leader for our clients and our industry.
- **Unlocking** means harnessing the power of disparate ideas to create solutions for our clients and employees.
- **Opportunity** looks different to each person, but it ultimately means that we strive to deliver not just financial returns, but meaningful financial returns.



Our purpose and values give us permission to think bigger about the kind of opportunities we unlock—for our clients, our colleagues and our communities—through the deep research and rigor that make AB distinctive. In other words, our purpose informs our actions across our business. Living our purpose and values is an ongoing journey and a key focus for AB in 2022 and beyond. Our AB colleagues shared their personal stories of the meaning of purpose in their own lives:



Madhu Rojukhirdu
VP/Manager of Attribution and
Performance, Nashville

AllianceBernstein's people and our firm's culture set us apart as an industry leader. In my tenure with AB, I have consistently seen how our leadership's commitment to inclusion and diversity has helped employees at all levels learn and grow.

Our culture has guided AB through crucial transitions throughout our more than 50-year history. The firm views employees and clients as stakeholders and listens to feedback when important decisions are on the table. During critical moments, especially when leading through the global pandemic, our senior leadership has made AB stronger by acting with unimpeachable integrity.

I started working for AB 13 years ago as a consultant with our services partner in India and my career is a testament to AB's commitment to investing in one another. My skills and contributions were valued and I was offered a full-time opportunity at the firm. With the development of new projects and initiatives, my growth as an individual and a manager has continued and progressed.

At AB, my perspective and background aren't a hindrance, they're assets. That's the kind of culture and environment that empowers people to excel and achieve great things for the firm and for our clients.



Fatima Diop

AVP/High Yield Portfolio Analyst, New York

When I think about what motivates me and what I enjoy most about my role at AB, it's the way my work challenges me. In the past year, I've joined a new team, and every day has brought me opportunities to learn from my colleagues. It's not easy to jump into a new part of the business, and there have been moments where the learning curve was steep. But AB's culture of learning and the way my team has supported me have helped me grow my expertise.

My team's work is complex, but we solve problems together. When I began the onboarding process, what made the biggest difference was the people who were willing to sit down with me and answer questions. High Yield is such a talented group of people, but at every level, we make time to help one another, and our leadership prioritizes developing new talent.

At AB, I'm not just an analyst. My colleagues take a genuine interest in one another and who we are as people. My family is from Senegal and own a Senegalese restaurant in New York. When I shared this with my department head, he coordinated a lunch order for the entire Muni team from my mom's restaurant. Seeing the people I work with enjoy the food that I grew up with is something I'll never forget. This firm is a special place to work, and the people are a big part of what makes AB unique.



Emma King

AVP/Equity Trader, London

The career I've built at AB and the impact I've been able to make for our clients began with AB leaders investing in my growth. I joined the firm as an assistant to the Senior Portfolio Manager and Value Research team. Within a year, I started my degree. I continued to work full-time while taking classes with a distance-learning institution. My team fully supported my studies and helped me find balance with work and academics.

When I was coming to the end of my degree, leaders sat down with me to help me find a role at AB that would allow me to apply my new skills and knowledge. I moved into the Middle Office team, an opportunity that I now see as the true start of my career journey.

Each role I've taken on has introduced me to new areas of the business and helped me build relationships with leaders across the firm. I've gotten to learn from others while forging my own path. Now as an equities trader in our London office, I play a direct role in unlocking opportunities for our clients.

AB is a place where employees are encouraged to grow at their own pace and stretch their skills to tackle new challenges. At the core of AB's purpose and values are our people, and it's our people who make AB such a special place to work.

Our Approach: Commitment Takes Action

Responsible investing is a key way that we live our purpose. We unlock opportunity through our actions as a firm, through ESG integration and engagement, and through our “Portfolios with Purpose”—a set of strategies focused on specific opportunities within ESG. Each of these pillars is integral to our responsibility strategy. We strive to be a responsible firm because we cannot unlock opportunity for our clients if we do not first understand the challenges and opportunities issuers face. Second, ESG consideration and engagement are fundamental to our active investment and research processes: we believe that integrating ESG leads to risk-adjusted returns. Finally, our purpose calls us to identify specific opportunities that our expertise and insight can help address, so we have a suite of Portfolios with Purpose—ESG strategies focused on specific topics.



Effective responsible investing must start with a **commitment to being a responsible firm.**



ESG consideration and engagement are fundamental to our active investment and research process.



Leveraging our perspective as a responsible firm and investor, we've designed **Portfolios with Purpose** to deliver specific ESG-related outcomes.



Morningstar Advanced ESG Commitment Level

In its second annual assessment of asset-management firms on their commitment to ESG factors in their investment processes and strategies, global investment-research and management-services provider Morningstar has assessed AB as Advanced, which is the designation above Basic and Low and just below Leader. Firms designated as Advanced are among the industry's better ESG proponents, deliberately integrating ESG considerations into their investment processes by using robust resources and formal monitoring.

At a Glance:
Responsible Investing
at AB

\$779bn

in assets managed on
behalf of clients¹

\$524bn

(67% of total AUM) in
assets managed with
ESG integrated in the
investment process²

\$31bn

in Portfolios
with Purpose²

198

Days of Service from
2019 to 2021

352

investment professionals
across equities, fixed-income
and multi-asset classes⁴

~100

employees working on
responsibility initiatives³

\$5.2mn

total charitable impact
in 2021⁷

1,400+

charitable organizations
impacted in 2021

13.9k

meetings with issuers
in 2021⁵

11,700+

total volunteer service hours
from 2019 to 2021

A+

PRI rating for our
Responsible Investing
Strategy for the fifth year
in a row (as of 2020)⁶

¹ Assets under management (AUM) as of December 31, 2021

² As of December 31, 2021. Assets using ESG integration include active fixed-income, equity, multi-asset and alternative strategies. Portfolios with Purpose are listed separately and therefore are not included in the integration total.

³ Includes employees fully dedicated to responsible investing, members of committees and those involved in workstreams as of December 31, 2021

⁴ As of December 31, 2021

⁵ Includes economic meetings with sovereign issuers

⁶ PRI: Principles for Responsible Investment. In 2020, AB received "A+" scores in key modules: Strategy and Governance, Equity Incorporation, Equity Active Ownership, and Fixed Income SSA. We received "A" scores in Fixed Income Corporate Financial and Fixed Income Corporate Non-Financial. We received a "B" score in Fixed Income Securitized. Collectively, these categories represent 99.7% of our AUM

⁷ Total charitable impact includes employee donations, the AB matching program and other firm contributions to more than 1,400 organizations

Our Journey: A History of Responsibility

Became a signatory of Japan Principles for Financial Action for the 21st Century (PFA21)



Published formal response to Japan Stewardship Code

Chaired AN/Securities/IB Working Group PFA21

Joined International Corporate Governance Network (ICGN)

2011 —



Became PRI Signatory

— 2012

2013 —

Released Statement on Controversial Weapons

— 2014

2015 —



Joined Climate Bonds Initiative

Joined Catalytic Finance Initiative

Joined CDP Worldwide

— 2016



Became Council of Institutional Investors (CII)
Corporate Governance Advisory Council Member

2017 —

Became committee member of Securities and
Futures Commission of Hong Kong's Public
Shareholders Group

Published Engagement Policy



— 2018

Joined Investment Company Institute Global ESG Task Force

Joined Investment Company Institute Proxy Committee

Joined ICGN Board Governance Committee

Became Task Force on Climate-related Financial Disclosures (TCFD) Supporter

Became Engagement Co-Lead for Climate Action 100+



2019 —

Joined Investor Group on Climate Change

Started Climate Change and Investing Initiative with the Earth Institute at Columbia University in New York

Became Associate Member of LuxFLAG

Joined the Carbon Market Institute



— 2020

Joined the Asia Investor Group on Climate Change and Asian Corporate Governance Association

Became Boston College Center for Corporate Citizenship Supporting Member

Became Eurosif Transparency Code Signatory

Became FAIRR Member

Became Investor Stewardship Group Principles Signatory

Conducted First Annual Firmwide ESG Engagement Campaign



2021 —

Joined the Forum of Investors—Japan

Joined the TCFD Consortium in Japan

Joined the Japanese Stewardship Initiative

Joined the Investors Against Slavery and Trafficking—APAC

Joined Ceres Investor Network

Became Founding Member of the Corporate Affiliate Program at the Columbia Climate School

Became Member of Emerging Markets Investors Alliance

Received the Themis Combatting Modern Slavery Award

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“Commitment to responsibility can’t be passive. For AB, it means being intentional in everything we do—from our behavior to our investments.”

Michelle Dunstan, Chief Responsibility Officer

**Donated
more than
\$1.85
million to
reach AB
communities
globally in
2021**

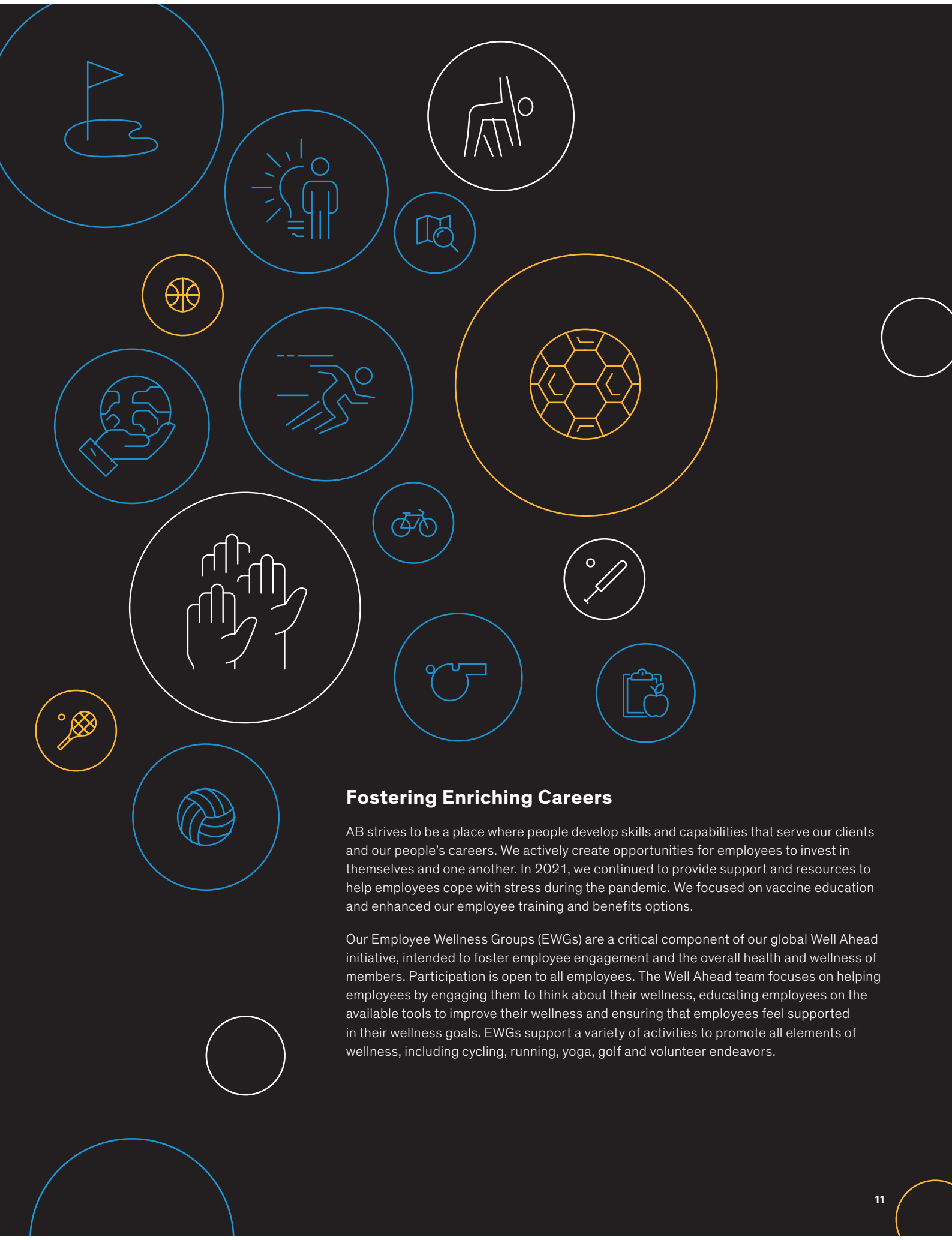
Corporate Responsibility: Building, Fostering, Supporting and Creating

Our corporate responsibility strategy unlocks opportunity for our employees, our clients and the communities in which we work. To do so, we focus on four topics: building trusting relationships, fostering enriching careers, supporting inclusive communities and creating better outcomes.

Building Trusting Relationships

Investing in one another is of the utmost importance to AB. We build lasting partnerships with our clients because we seek and include talented employees who expand our thinking. Our mosaic of perspectives makes us stronger, helping us nurture strong relationships and build actionable solutions.

We invest in communities by supporting education—specifically financial literacy and college attainment—with the ultimate goal of positively affecting the global workforce and creating opportunities for underserved communities. We expanded our corporate philanthropy efforts in 2021 to operate in APAC, EMEA and New York, based on our Nashville model, with a budget of more than \$1.85 million to reach AB communities globally in 2021. As part of this commitment, we formed new partnerships and strengthened existing ones; we hope to build on these relationships in future years as our program grows.



Fostering Enriching Careers

AB strives to be a place where people develop skills and capabilities that serve our clients and our people's careers. We actively create opportunities for employees to invest in themselves and one another. In 2021, we continued to provide support and resources to help employees cope with stress during the pandemic. We focused on vaccine education and enhanced our employee training and benefits options.

Our Employee Wellness Groups (EWGs) are a critical component of our global Well Ahead initiative, intended to foster employee engagement and the overall health and wellness of members. Participation is open to all employees. The Well Ahead team focuses on helping employees by engaging them to think about their wellness, educating employees on the available tools to improve their wellness and ensuring that employees feel supported in their wellness goals. EWGs support a variety of activities to promote all elements of wellness, including cycling, running, yoga, golf and volunteer endeavors.



Supporting Inclusive Communities

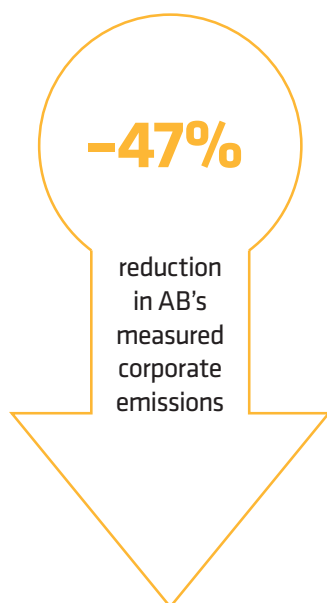
We're committed to fostering a vibrant, empowering environment where employees feel valued, are treated fairly and are excited about building a career at AB.

In 2021, for the sixth consecutive year, AB received a score of 100% on the Human Rights Campaign Foundation's 2021 Corporate Equality Index, the foremost benchmarking survey and report that measures corporate policies and practices related to LGBTQ workplace equality in the US.

We also improved the diversity of our Board and our employees, as outlined in our [EEO-1 disclosures](#).⁸ Of our 2021 US new hires, 39% were ethnically diverse.⁸ This was a positive step toward our Drive to 25 aspirational diversity targets, which were developed in an effort to increase the firm's female and underrepresented populations by 2025. We work toward this strategy through refreshed talent attraction and retention, in coordination with increased engagement, retention and promotion of existing diverse talent. These efforts are supported by our partnerships with Wall Street Friends and other initiatives, including our Career Catalyst program, which pairs women and Vice Presidents from underrepresented populations with coaches who are Senior Vice Presidents.

AB has strong global Employee Resource Groups (ERGs): voluntary, cross-divisional employee-led groups that support our D&I efforts. ERGs were created to advance employees from traditionally underrepresented groups, the allies who support them, and people who share a common purpose, interest or background. By sharing information, educating and engaging in outreach with clients and our communities, ERGs contribute to business development and the recruitment, retention and professional development of employees globally.

⁸ Black, Hispanic/Latino, Asian and Other



We're also on track to place 85% of our people in more environmentally friendly buildings by 2025

Striving For Better Outcomes

Our purpose, mission and values call on us to consider our impact on the world. We can't "Act with Integrity—Always" if we don't embody the same practices we encourage in others. In 2021, AB focused on two key areas: modern slavery and carbon emissions.

Modern Slavery

When considering our business's exposure to vulnerable populations, high-risk geographies, high-risk products and services, and high-risk business models, we believe our operations would be deemed low risk, based on our analysis of the asset management industry. Specifically, we adhere to a [Code of Business Conduct and Ethics](#) that underpins everything we do. Employees can report signs of modern slavery and human trafficking through formal escalation channels, such as the hotline or via our whistleblowing policy, as well as our Ombuds.

The same standards extend to our suppliers. We maintain a formal [Vendor Code of Conduct](#) that outlines both our expectations for vendors generally and our expectation that they comply with applicable laws, rules and regulations, which may include modern slavery or human trafficking laws and regulations. We perform a periodic vendor risk mapping exercise of our critical and material vendors across various regions, comparing dollar amount spent and modern slavery risk.

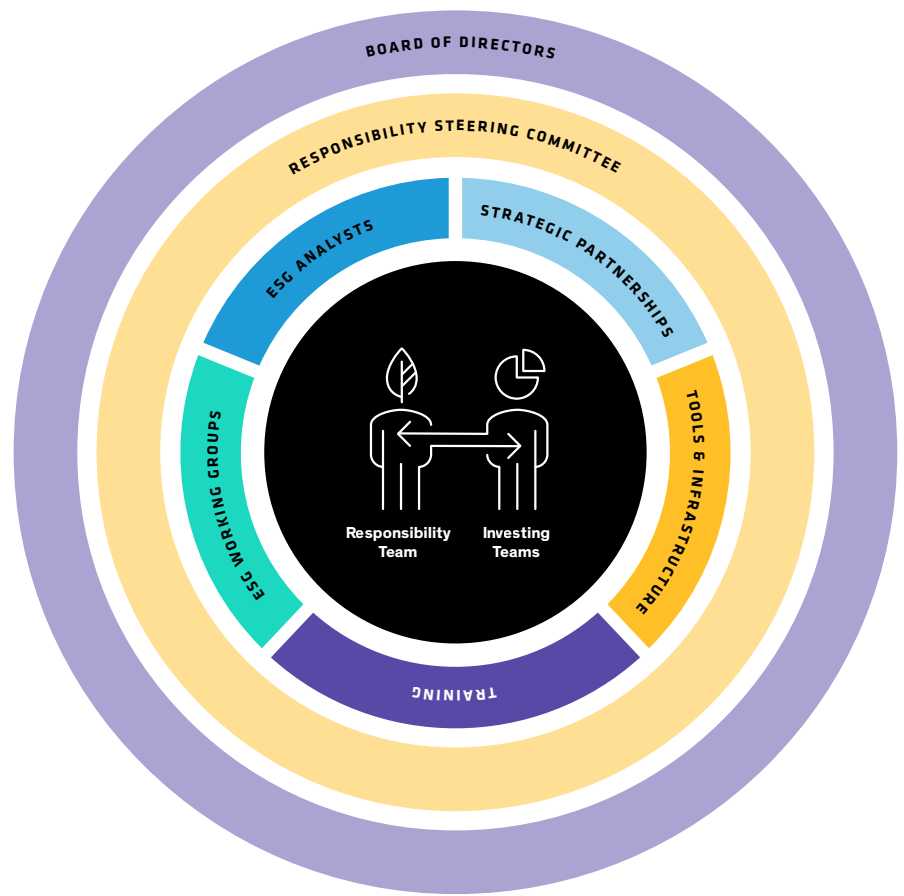
Our approach to modern slavery is outlined in our [Global Slavery and Human Trafficking Statement and Report](#).

Carbon Emissions

Since 2012, we've reduced our electricity consumption and operational carbon footprint in measured emissions. AB's 2020 emissions were below our 2019 lows, and we achieved combined Scope 1, 2 and 3 emissions of only 6,196.5 tCO₂e. This represents an overall 47% reduction in AB's measured corporate emissions, attributable mainly to the pandemic-related transition to remote work and moving to more energy-efficient office buildings.

We're also on track to place 85% of our people in more environmentally friendly buildings by 2025. Our new office location in Shanghai received a Gold LEED rating, and the building that's home to our Nashville headquarters is pursuing a Silver LEED rating. Our new London office has been awarded a BREEAM "outstanding" rating for being in the top 1% of UK domestic refurbishments.

Our approach to climate change is outlined in our [Climate Change Statement & Task Force on Climate-related Financial Disclosures Report](#).



Our Model: Collaboration Improves Outcomes

AB's Responsibility team, comprising experts in corporate responsibility and environmental, social and governance issues, partners with our investment teams at the heart of our responsible investing practices. The Responsibility team members elevate the investment teams' research and engagement efforts by sharing deep domain expertise in environmental issues like climate science and carbon pricing, social issues like gender diversity and modern slavery risks in supply chains, and governance issues such as shareholder rights and executive compensation.

We believe that this complementary relationship is more effective than the approach of some asset managers whose ESG specialist teams are a check and balance—often exercising veto power over investment teams that make decisions based on traditional measures of investment attractiveness. At AB, our Responsibility team helps portfolio managers and analysts consider and engage on ESG issues holistically and consistently, challenging investment teams' thinking and encouraging analysts to incorporate this perspective into their financial models and investment outlooks. This robust approach helps teams consider ESG issues throughout their investment processes, ultimately driving to better client outcomes.



Collaboration in Action: Engaging South Africa's Largest Carbon Emitter

South Africa's state-owned electric utility company, Eskom, is also the country's largest greenhouse gas (GHG) emitter. The company is responsible for 40% of the country's total GHG emissions, contributing to South Africa's ranking as the world's 12th-largest emitter of greenhouse gases.

Encouraging positive progress from massive emitters like Eskom has the potential to drive real change in terms of curbing global carbon emissions, but this effort requires deep collaboration—both internally at AB and externally with other investors. AB's fixed-income team has been engaging with Eskom for years on its emissions-reduction targets, partnering with the Responsibility team to dive deep into the science behind Eskom's climate strategy. While AB's fixed-income team best understands Eskom's governance structure and financing needs, AB's Responsibility team complements these insights with expertise in climate science.

Recognizing that meaningful change requires collaboration beyond our teams at AB, we became a co-lead of the Climate Action 100+ (CA100+) cohort of domestic and international investors engaging with Eskom, which improved our access to the company as well as their receptivity to engaging. While the company won't be transformed overnight, this engagement has so far yielded several positive results from Eskom, which announced in August 2021 that it will retire approximately 30% of its coal power plant capacity by 2031. Eskom is also focused on creating new job opportunities to mitigate the risk of increased unemployment due to the plant closures.

We believe that the company has a viable long-term decarbonization plan, but only with continued support of the South African government. At the end of 2021, the CA100+ investor cohort decided to draft a private letter to the South African government to commend the recent progress it had made and outline priorities for Eskom going forward. AB's fixed-income team and Responsibility team—in partnership with other CA100+ investors—will continue to engage with Eskom over the long term.

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AB: An Active Member of the Global Investment Community

We strive to stay current on best practices, evolving principles, and changing frameworks and regulatory developments. We can also influence these areas by advocating for progress with issuers, regulators and others, and can often be more effective at both learning and advocating by collaborating with the broader investment community. For example, we work with:

- **Council of Institutional Investors (CII)**

Our Director of Corporate Governance was appointed to the CII Corporate Governance Advisory Council, which advises the board and staff on trends and best practices in corporate governance.

- **Emerging Markets Investors Alliance (EMIA)**

We've cohosted the EMIA ESG Conference since 2019, including the first EMIA APAC ESG Conference in 2021.

- **International Corporate Governance Network (ICGN)**

Our Director of Corporate Governance is a member of the ICGN's Global Governance Committee, focused on board leadership, fiduciary duties, independence, culture, committee effectiveness, strategy, risk and remuneration.

- **SIFMA**

Our Director of Responsible Investing Strategy and our Director of Environmental Research and Engagement are participants in the SIFMA Asset Management Group ESG Taskforce, which responds to regulatory and standard-setting sustainability issues facing asset managers in the US and Europe.

- **Themis**

We sponsored and participated in the content development of Themis's UK Modern Slavery Digital Learning Tool, which aims to advance the entire financial industry's understanding of modern slavery risks.



Our Commitment: ESG Integration and Engagement

From idea generation to ongoing stewardship, integrating ESG involves considering ESG risks and opportunities throughout the investment process. We incorporate ESG issues when conducting research to build our financial models for strategies that integrate ESG. We engage with issuers and companies to understand and encourage ESG-friendly behaviors and improve outcomes. And when we ultimately make decisions, we recognize that the impact of ESG issues on financial outcomes is critical in our investment process. Finally, we continue our stewardship by engaging with issuers to create long-term value.

Idea Generation

For strategies that integrate ESG, the investment teams begin the ESG integration process by identifying and assessing material ESG risks and opportunities. Materiality differs by sector and industry. For example, the way a company or issuer manages its water consumption and treats wastewater could present ESG and financial issues for food and beverage companies. For many healthcare companies, product safety and quality are key considerations. To help identify these issues, we use an in-house materiality map, which is detailed on page 21.

Engagement

Our analysts frequently engage with leaders of public and private companies and noncorporate entities, including municipalities, supranationals, sovereign and securitization issuers. In 2021, we logged more than 13,900 meetings, including both issuer-specific engagements and strategic engagements based on specific themes. Engaging specifically on ESG issues is a key part of our research and stewardship processes. On page 23, we elaborate more on engagement at AB.

Stewardship

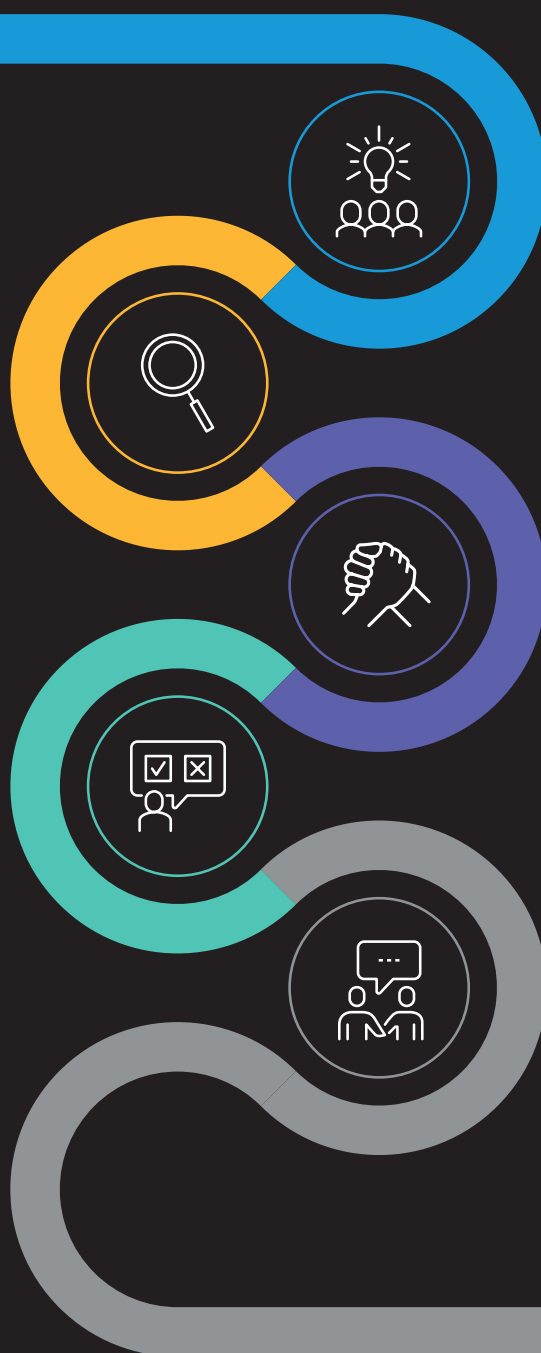
ESG integration doesn't stop once we've made an investment. We monitor and engage with issuers through continued stewardship in order to generate long-term value. We also partner with industry organizations and push global policymakers to advance ESG issues, generating better outcomes for stakeholders.

Research and Modeling

We then equip our investors with proprietary and third-party tools, data and research that enable them to develop a broader understanding of the ESG risk characteristics of an issuer, sector or portfolio. We view these third-party data as one source for analysis; on their own, they don't provide the level of detail or insight we need to fully understand the risks and opportunities of an issuer or portfolio. To augment third-party data and toolsets, we've developed proprietary research and collaboration tools, which strengthen ESG research and make integration systematic across the firm. Proprietary tools include the ESIGHT platform for ESG research and collaboration, PRISM for credit ratings and scoring, and asset class- or sector-specific frameworks. You can find more information on these tools and frameworks on page 21.

Investment Decisions

Based on the information and insights we've gained, investment teams then integrate ESG factors into their decision-making process, with analysts' recommendations and evaluations of risks and opportunities for a security reflecting impacts from ESG issues. We believe that deep ESG analysis helps us better assess risk and identify opportunities, which ultimately can lead to better decision-making and client outcomes.





Systems, Tools and Frameworks: Enhancing Integration

ESG integration at AB is supported by our unique technological infrastructure and intellectual property. These tools and frameworks empower our investors—enhancing research, analysis and decision-making.

The Materiality Map: Integrating ESG and Financial Issues

Identifying issuers' most material issues is critical to AB's robust ESG integration, and this effort is aided by our proprietary materiality map, developed by the Responsibility team in partnership with more than 120 AB research analysts across asset classes. This tool covers more than 40 ESG issues and almost 70 subsectors, acting as a heat map to help investors identify material ESG issues that could affect our long-term financial forecasts—and stakeholders more broadly. In our view, this consistent framework for balancing financial forecasts and ESG materiality leads to better-informed investment decisions, which ultimately can drive better investment outcomes.

ESIGHT: ESG Research and Collaboration Platform

As a leader in ESG research and analysis, we recognized the growing need for a more robust and centralized resource hub where investment teams could share real-time ESG insights on issuers. To address this need, we developed ESIGHT—a proprietary research and collaboration platform that enables our investment teams to access and share information on issuer ESG practices.

With ESIGHT, our investment teams can filter complex information gathered from in-depth, proprietary ESG research as well as data from third-party providers, including rating agencies, public filings and big data. AB analysts and portfolio managers use this information to help generate investment ideas, influence investment decision-making and follow robust stewardship practices. ESIGHT also helps elevate AB's client communication efforts, serving as a reliable source for portfolio engagement data and voting records.

PRISM: Fixed-Income Credit Research and Ratings Platform

AB's proprietary credit-rating and risk-scoring platform, PRISM, aids in portfolio construction by allowing analysts to assess issuers on fundamental pillars, including industry dynamics, competitive positioning, operational acumen, financial policy, capital structure and ESG.

PRISM reflects analysts' fundamental views in numerical risk factors—systematically scored, stress-tested and translated into proprietary credit ratings. The methodology is applied consistently and objectively, so our investment teams can compare bonds across industries, geographies and ratings categories.

The platform's abilities are enhanced by its integration with AB's fixed-income ecosystem: ALFA, our in-house liquidity tool; Abbie, our virtual trading and portfolio assistant; and quantitative research tools. It also integrates with ESIGHT to help portfolio managers and traders evaluate bonds and their risk factors.

Navigating Climate Risks

Permanent property damage is the main danger to CMBS, whether it's caused by earthquakes, hurricanes, tornadoes, wildfires, floods or severe winter storms. Insurance may not cover these damages and the interruption to business, which impairs cash flow from tenants. Overall, losses can be substantial.

While many commercial properties carry hazard insurance and supplemental insurance, recent storms and extreme weather events have proven that weather pattern changes can severely affect even inland areas, and most regions have overlapping concerns. The problem is significant—and growing—as climate change drives more frequent and more catastrophic natural disasters.

How can fixed-income investors address this problem? We believe that the answer is to quantify the risk for individual properties based on models that consider specific types of potential disasters region by region. Through this in-depth analysis, investors can better understand CMBS risk exposure, either demanding better pricing on riskier deals or avoiding them altogether.

CMBS investors who fully understand the ESG implications within their investments will be better positioned to avoid specific hazards and have a better chance to guard against climate-related losses. We also believe that they'll ultimately be fairly compensated for the risks they choose to take.

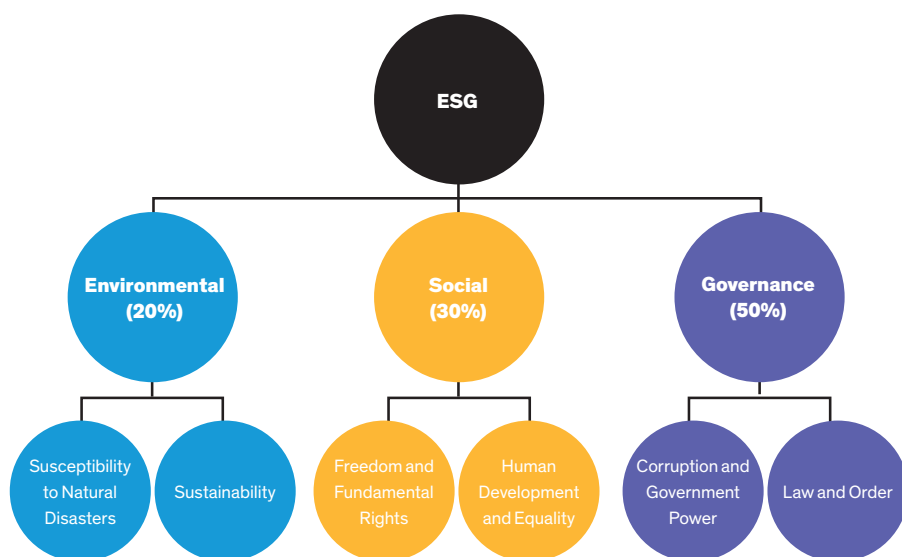
Fixed-Income Frameworks: Sovereign and Securitized Scoring

The case for integrating ESG considerations into equity and corporate-credit research is generally well understood by market participants. However, the important role that ESG factors play in driving sovereign-debt performance and broader economic and financial outcomes has not been articulated as clearly. That's why we developed a framework to measure and monitor sovereign ESG characteristics more effectively.

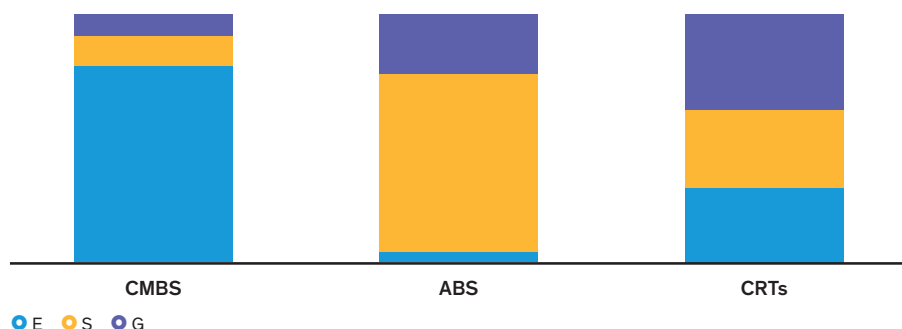
We don't view ESG as an alternative approach to traditional economic or sovereign-credit analysis—it's directly linked to long-run economic performance, with ESG pillars containing many factors likely to affect a country's long-term prospects. We've used this framework to score more than 100 sovereigns globally. We then take our sovereign ESG scores and put them into our fundamental credit scoring model.

We've taken a similar approach to considering ESG issues in securitizations. Deeper analysis revealed to us that certain securitizations have more or less exposure to ESG issues, depending on the underlying assets or risk mechanisms. For example, commercial mortgage-backed securities (CMBS) are more exposed to environmental issues, given the natural disaster risk some properties face. Asset-backed securities (ABS) are more heavily weighted toward social issues, because of the relationship between available credit and borrowers' ability to pay. Credit risk-transfer securities (CRTs) are more balanced in their exposure.

AB SOVEREIGN SCORING FRAMEWORK



AB SECURITIZED SCORING FRAMEWORK

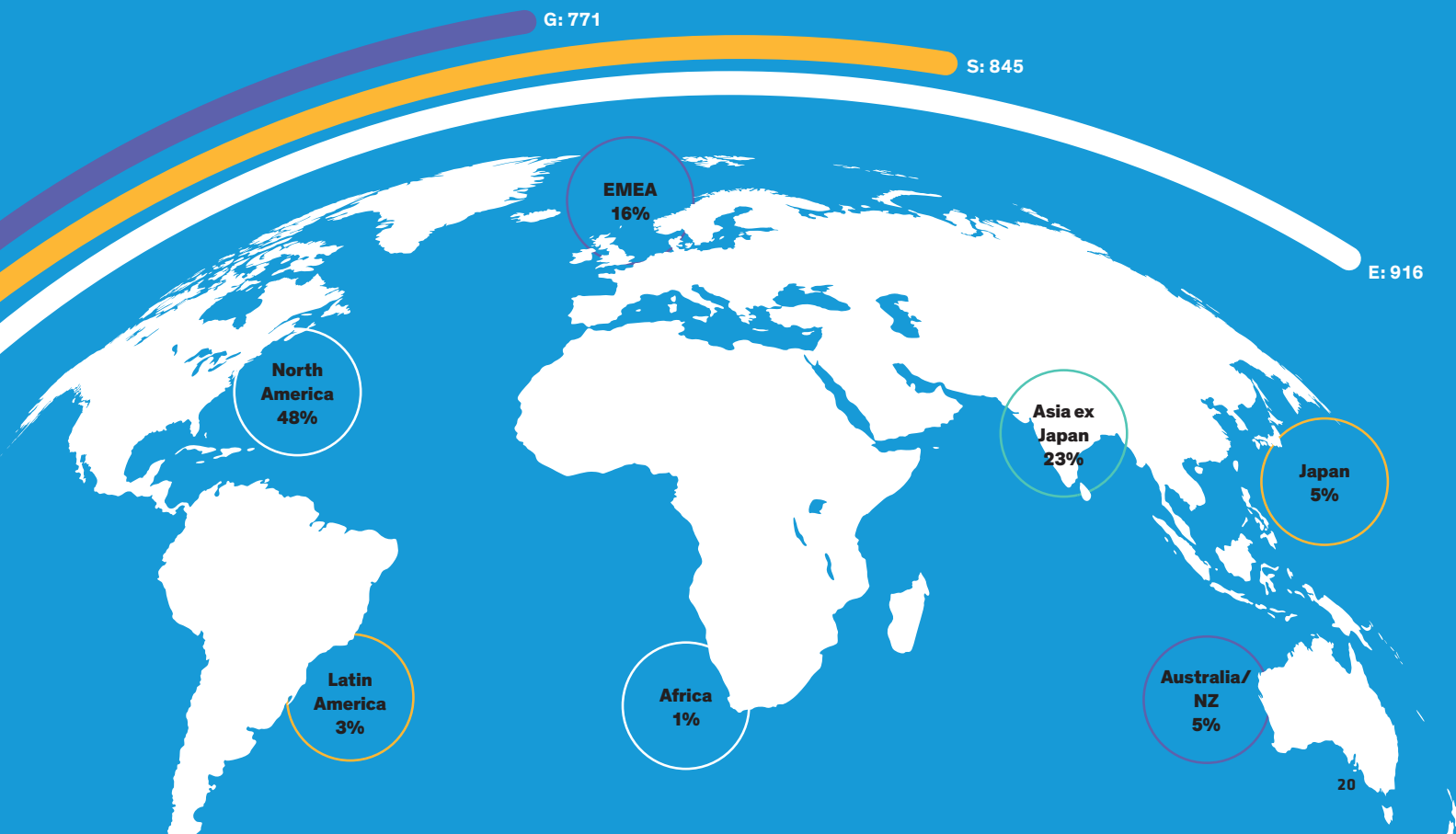


ESG Engagement at AB

Engagement is a key pillar of Responsibility at AB. When our investment analysts engage with issuers, they speak directly with management, board directors or other key officers, discussing material ESG issues facing a company. Whether it's carbon emissions, biodiversity, human capital management, board structure or another topic, ESG issues are often the only ones on the agenda. Dialogues include both what companies have done about ESG issues and what they might do going forward.

We engage for insight when our investment analysts seek to learn more from issuers about an ESG topic. We engage for action when we seek to encourage positive progress on ESG topics. In 2021, we conducted 1,566 ESG engagements with 1,091 unique issuers.

Environmental		Social		Governance	
Carbon Emissions	648	Diversity and Inclusion	341	Pay	373
Opportunities in Clean Tech	132	Human Capital Development	223	Board-Level Diversity	123
Opportunities in Renewable Energy	126	Labor Management	197	Board Independence	121
Supply Chain—Environmental	107	Employee Health and Safety	155	Organizational Culture	91
Water Management	97	Supply Chain—Social	117	Entrenched Board	52
Climate Change Vulnerability	92	Modern Slavery	93	Business Ethics	32
Product Carbon Footprint	92	Privacy and Data Security	90	Crisis Management	32
Packaging Waste	70	Product Safety and Quality	85	Combined CEO Chair	25
Opportunities in Green Buildings	66	Opportunities in Financial Inclusion	35	Corruption and Instability	25
Toxic Emissions and Hazardous Waste	63	Opportunities in Healthcare	32	COVID-19 Fundamental	23
Biodiversity and Land Use	47	Responsible Investment	27	International Norms	12
Resource Management	43	Financial Product Safety	21	Accounting	11
Electronic Waste	10	Opportunities in Nutrition and Healthier Products	21	Sanctions	9
International Norms	6	Insuring Health and Demographic Risk	20	One Share, One Vote	8
COVID-19	1	Stakeholder Engagement	19	Anti-Competitive Practices	7
		Opportunities in Education	13	Proxy Access	7
		COVID-19	9	Financial System Instability	6
		Opportunities in Communications	7	Right to Call Special Meetings	6
		International Norms	5	COVID-19 Governance	2





265

issuers we engaged
with on executive
compensation

33%

said they included ESG
factors in their executive-
compensation plans

213

issuers we engaged with
on climate risk goals
and disclosures

46%

had some climate targets
or disclosures

44

issuers we engaged
with on modern slavery
risk in 2021

2021 Thematic Engagement Campaign

In our second annual ESG engagement campaign, 107 of our investment analysts across 23 teams engaged with 432 unique issuers on three critical ESG issues:

1. Incorporating ESG metrics in executive-compensation plans
2. Adopting climate risk goals and appropriate disclosures
3. Addressing modern slavery risks in operations and supply chains

We engaged with issuers across sectors and geographies—and across a diverse group of company representatives, including CEOs, CFOs, Board Chairs, General Counsels and ESG Managers.

Of the 265 issuers we engaged with on executive compensation, 33% said they included ESG factors in their executive-compensation plans. In some cases, we believed that firms needed to improve those metrics—for example, making them quantitative or more impactful. However, we found that most issuers' metrics were appropriate, in our view. The vast majority of issuers we engaged with did not have ESG metrics incorporated in their plans but agreed to adopt them. A handful either didn't respond to our outreach, refused to discuss the topic or said they wouldn't consider making any changes. In accordance with our policy, we may consider escalating these engagements if the issuers continue refusing to act in what we feel are stakeholders' best interests.

We engaged with 213 issuers on climate risk goals and disclosures. Almost half—46%—had some climate targets or disclosures. As with our engagement on executive compensation, a few issuers wouldn't engage with us on climate or refused to discuss the topic with us. In cases where we've engaged with an issuer for a second year without seeing meaningful progress, we may escalate the engagement as per our policy.

We engaged with 44 issuers on modern slavery risk in 2021. This can be a very sensitive topic: issuers don't want to be associated with modern slavery risks in any way, and they're very concerned about the related reputational risks. Nevertheless, the majority of issuers—82%—were receptive or very receptive to the conversation. We used the information gleaned during our research—and confirmed during our engagements—to plot issuers on both our two-dimensional risk matrix, which looks at risk in a company's own operations and supply chain, as well as our best practices scorecard.

We generally targeted more issuers in higher-risk sectors, like consumer products and materials, and fewer issuers in generally lower-risk sectors, such as financials or telecommunications. Interestingly, issuers with the lowest risk often lag on adopting best practices—for example, telecommunications or healthcare companies. Issuers with the highest risk are typically further along—in consumer discretionary or consumer staples, for instance. This pattern is consistent with other engagements we've conducted on modern slavery: issuers facing the highest risks are typically advancing further while issuers with lower risk are earlier in their journeys but often willing to learn more. In general, consumer-facing companies have better modern slavery disclosures, and issuers reporting under regional modern slavery acts tend to be further along in understanding the risks.

For more details on our 2021 ESG Engagement Campaign, please read our [full report](#).

ESG Engagement Case Studies



“We believe strongly in aligning the incentives of company management with those of the wider stakeholder group, including shareholders, employees and the environment. In this case, we very much welcomed the constructive dialogue with Ashtead’s Board and see the results of the engagement representing the best outcome for the company over the long term.”

Nick Timpson, Research Analyst,
Concentrated Global Equities

Ashtead

Ashtead is an international industrial-equipment rental company with a business model built on the sharing economy and an energy-efficient fleet. Despite having a strong ESG story to tell, Ashtead was perceived as a laggard on the ESG front. In engaging with the company over the past four years, we’ve repeatedly pressed management to prioritize and develop an ESG strategy and road map. Earlier in 2021, we were pleased that the company launched its inaugural ESG strategy, including a goal to decrease carbon intensity by 15% by 2024 and by 35% by 2030, as well as a road map toward science-based targets.

More recently, we met with the board chair and remuneration committee chair in response to the company’s request for guidance on proposed changes to CEO remuneration and other compensation-related proposals. After sharing our recommendations, we learned that our suggestions resulted in modifications to the plan. We voted in favor of it at the company’s 2021 annual general meeting (AGM), where it passed.

After exchanging detailed letters, with Ashtead requesting feedback from AB and AB responding, we spoke with board members to provide more details on our recommendations to the CEO’s long-term incentive plan (LTIP). Although we supported the principle of aligning the CEO’s compensation with those of his UK FTSE 100 peers, we expressed concern that the proposed LTIP targets were not sufficiently “stretching” to function as an incentive for continued outperformance.

We discussed the need to balance CEO retention and achievability of targets, agreeing that it may be a question of changing the context in which the new targets are presented. Ashtead’s letter to AB introduced targets that would reward a “step change” in Ashtead’s performance; in our view, these didn’t stretch enough. Ashtead has been performing at a very high level, and the new targets were set to reward—at best—a continuation of that run rate. Our feedback was well received by Ashtead’s Board.

When the final shareholder proposal was published ahead of the September AGM, the plan incorporated several changes from the initial draft. The thresholds for incentive-compensation payouts were materially increased on three metrics that we had suggested changing: EBITDA growth, ESG weighting and carbon-reduction targets. Ashtead also followed our recommendations to change or remove certain language that introduced the new package.

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“AllianceBernstein has provided us with key input to effectively address investor priorities in ESG, particularly related to carbon emissions, health and safety, diversity and inclusion, and governance.”

Manitowoc Head of ESG



Manitowoc

Recently, management at The Manitowoc Company, a US-based machinery company, reached out to us to explain its progress following our previous engagement about improving a wide range of ESG efforts. In that prior discussion, Manitowoc's CEO made commitments to:

- Set carbon-reduction targets based on an internal baseline
- Add a minority board member by the next proxy (we communicated that we would vote against the board if another diverse candidate was not put forward)
- Improve disclosures around cybersecurity competencies—both the board's audit committee as well as company management
- Consider linking ESG metrics to executive compensation

Four months after our initial conversation, management responded to all of our ESG requests and received meaningful ratings upgrades from both Institutional Shareholder Services (ISS) and MSCI.

The company disclosed its carbon-emissions baseline for the past two years and set a carbon-intensity reduction target of 15% by 2025 (from 2019 levels). This is aligned with industry peers and shows rapid improvement for a company that had neither baseline measurement nor a reduction target. The company has added diverse board members, which now represent 40% of the board, appointed an internal head of cybersecurity (a part-time job), and established cybersecurity protocols, and the board has proposed integrating carbon, diversity and safety into CEO compensation.

We were very pleased to see such strong results from engaging with Manitowoc for action.

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“Through active engagement, we saw Toyota make real change.”

Per La Cour,
AB Global Core Equities
Senior Research Analyst



Toyota Motor

We've met several times with the management of auto company Toyota Motor to discuss its battery-powered electric vehicle (BEV) strategy, product offerings, competitive landscape and consumer preferences.

In our initial meetings, Toyota explained that it wasn't as outspoken about its BEV strategy as its competitors. We learned that this was largely because Toyota isn't convinced that BEV technology is the best strategy to reduce carbon emissions. Management argued that while fuel-cell technology and hybrid cars would yield better outcomes longer term, much of the energy produced in the US, Japan and China comes from fossil fuels—it will take time for renewable energy sources to produce electricity that can be used in manufacturing processes. Management then articulated its enthusiasm around fuel-cell technology for commercial vehicles, trucks and, in the long term, passenger vehicles.

We were impressed with the company's knowledge and understanding, but we argued that consumers consider BEVs to be green cars (in our view, most consumers don't understand the significant energy needed to produce batteries). We encouraged management to use consumer perception around green vehicles to its advantage in developed markets, noting the positive tailwind created by political and social pressure to reduce carbon emissions. As more renewable energy sources are used to produce electricity in the future, the global car park will be more biased toward electric vehicles.

Toyota has since changed its communication strategy toward BEVs and updated its long-term expectations regarding the future mix of regular cars, hybrids, fuel-cell vehicles and BEVs. We applaud this change. Although Toyota still talks about fossil fuels used in electricity production, we think management's more adaptive approach to ensuring the company has products to offer to all consumers is essential.

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Chilean Electricity Sector

Power generation in Chile depends a lot on coal, a very capital-intensive industry, which makes companies reluctant to shutter operational coal plants. Also, many price-sensitive consumers can't shoulder higher electricity bills to subsidize the transition from coal to renewable methods. We've been engaging with the four largest Chilean power-generation companies (AES Andes, Colbún, Engie Energía Chile and Enel), as well as a newly formed electric-system financing entity (CHIEPEC), to encourage management to phase out coal plants and create innovative ways to finance the transition to renewable energy.

To support our argument, we were able to demonstrate that the cost of capital is materially lower for companies focused on greener power sources. We also showed that existing coal plants are more expensive than new renewable plants, and that increasing carbon taxes and regulation will hurt the competitiveness of existing coal plants.

These companies were receptive to our arguments: In the first half of 2021, Engie Energía Chile announced that it would close all of its coal-powered plants by 2025. AES Andes announced that it would close more than half of its coal facilities. AB engaged with the Chilean government and bankers to develop a creative solution to address issues facing vulnerable consumers struggling with a short-term rise in power prices stemming from the green power transition. As a group, we developed an entity, CHIEPEC, which would borrow ~\$500 million in 2021 to finance residential consumer electric bills in the near term, helping consumers bridge the gap until prices decline later this decade (when coal would be phased down and cheap renewables operating). AB was an anchor order in the ~\$500 million bond deal, which we continue to hold, knowing that our investment promotes social considerations in Chile and the move to renewable power.

While we're pleased by this progress, we'll continue to advocate for the full closure of all remaining coal plants in Chile and look for creative ways to finance the energy transition, with an eye toward mitigating social costs.

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Centers of Excellence: Climate Change

At AB, we view climate change as an existential threat to people, businesses, communities, countries and the planet. As investors, we believe that climate risk is often an investment risk—we should consider the material physical and transition risks and opportunities of the issuers we invest in. Through strategic partnerships, stewardship practices and investment solutions, we have a role in combating climate change.

Partnership: Columbia Climate School

In 2017, we started a conversation with leading scientists at Columbia University's Earth Institute to help our investment teams better integrate climate change into our investment process, ultimately improving outcomes for clients.

Our dialogue produced a pilot climate risk training program in February 2019 for select AB investment professionals across asset classes. The program, later formalized as the Climate Science and Portfolio Risk curriculum, addresses: the science of climate change; its policy, legal and regulatory aspects; solutions; public health implications; and tools for translating climate science into financial impact.

In 2020, AB equity, fixed-income and multi-asset investment professionals completed the initial Climate Science and Portfolio Risk training—and so did our CEO and members of the AB Board. As part of the process, AB trained Columbia faculty members on how asset managers invest.

We've always intended for the unique collaboration between AB and Columbia to serve the broader asset-management industry, so in 2021 we launched the Climate Science and Portfolio Risk curriculum through the Climate Change and Investment Academy. More than 1,000 AB clients and other institutions gained access to Columbia's research and faculty in curated sessions.

In 2021, we also became the founding member of the Corporate Affiliate Program at the newly launched Columbia Climate School—the world's first school built to focus exclusively on the challenges and potential solutions of climate change. By integrating the unique perspectives and skills of investors and scientists, AB and Columbia seek to shape the next generation of professionals striving to manage climate risk and develop solutions.



Research, Embed, Educate

The next phase of our partnership with Columbia is focused on joint climate change research projects exploring climate challenges, including the approach to net zero and the impact of stakeholders on achieving that target in the next 30 years. By sharing the results of this research through thought leadership, workshops and other avenues, we'll demonstrate how investors are applying new insights to inform their decisions and stewardship activities.

Climate Change and the Impact on Salmon Fisheries

Recently, the team focused its research on the rapidly growing industry of salmon aquaculture, or the raising of salmon in specialized fisheries. It requires a complex, multi-stage process involving onshore and offshore storage, freshwater and saltwater operations, and facilities with tightly controlled temperature ranges. Rising sea temperatures and ocean levels from climate change can disrupt this careful balance—and can deeply affect the financial success of salmon fisheries. Salmon farmers' abilities to manage these factors can mean the difference between a successful business and a struggling one.

The joint AB-Columbia working group is seeking to enhance investors' visibility into the potential range of changes in water temperatures and levels in salmon-farming regions, and also to get a better sense of which areas may be more at risk as algae blooms migrate. Both factors can have a sizable impact on individual salmon farms.

One key challenge to our research is that climate variations are extremely local for salmon farms clustered around fjords on the North Sea coast of Norway—the world's biggest salmon producer. Segmenting the country into regions and assessing base-case oceanic conditions and possible variations is one approach the working group is considering. With this knowledge, investors could assign individual farms to risk cohorts.



Integration: Climate Scenario Analysis

Scenario analysis, as defined by the Task Force on Climate-related Financial Disclosures, is an exercise to improve the understanding of how the physical and transition risks and opportunities of climate change might affect a business over time.

Physical risk measures the cost to a company's physical assets due to climate change. This might include factories endangered by coastal flooding, the impact of temperature extremes on infrastructure, increased major storms or other tangible damage. Transition risk measures the effect of policies, such as the cost of emissions-reduction requirements, and opportunities that might arise from transitioning to a low-carbon economy, such as newly developed low-carbon technologies or other services or products that could help society mitigate or adapt to a changing climate.

Identifying and quantifying climate risk and opportunity through scenario analysis is difficult work. We combine the detailed company and sector knowledge of our analysts and insights from our extensive issuer engagement on climate issues with climate risk data from third-party providers in order to improve our understanding of the climate risks facing our portfolios and their holdings.

AB is working to understand, assimilate and, over time, improve climate scenario analysis. Building meaningful climate change scenario analysis for reporting and investment decision-making is a process that will be continuously refined as it becomes more commonplace.

Centers of Excellence: Modern Slavery

At AB, we've been considering the social risks of our investments for many years, with a focus on modern slavery and forced labor. Through our engagements with corporations, we've come to realize that our role as investors makes us uniquely positioned to put modern slavery on the corporate agenda and hold companies accountable for their practices.

Modern slavery—forced labor, debt bondage, forced marriage, slavery and slavery-like practices, human trafficking, and the worst forms of child labor—is a pervasive social issue. The International Labour Organization (ILO) and Walk Free Foundation estimated in 2017 that 40.3 million men, women and children had been victims of modern slavery on any given day during the previous year. That translates into one out of every 185 people on the planet, mostly women and girls (71%). The research also estimated that forced labor generated \$150 billion in profits annually.⁹

As investors, we have the ability—and responsibility—to use research as a tool to identify modern slavery risk. With deep industry knowledge, AB and other active managers are able to zero in on industries, regions and companies at high risk of modern slavery. Factors such as vulnerable populations, high-risk geographies, products and services, and business models help us better understand social risks in our clients' portfolios. For example, migrant workers are particularly vulnerable to modern slavery. And if a region has a history of abuses or is plagued by conflict, we pay special attention.

Certain products and services—like raw materials or goods produced in sweat shops—are at higher risk for modern slavery abuses in companies' operations or supply chains. Some business models are more prone to using forced labor or debt bondage, including those

⁹ Global Estimates of Modern Slavery, ILO and Walk Free Foundation, 2017



that outsource or have seasonal demand peaks and troughs. We use a two-dimensional matrix to assess high-risk-to-people issuers—in terms of their own operations and their supply chains. An issuer might have a low risk of modern slavery exposure in its own operations but high risk in its supply chain—airlines, for example.

Once investors identify an issuer's riskiness, they need to dig deeper to better understand how leaders are addressing these risks. In many cases, investors also have the ear of company management, using the power of capital as shareholders or bondholders in order to encourage companies to adopt best practices. We've identified five criteria that, in our view, capture best practices: governance framework, risk identification, action plan to reduce risks, action plan effectiveness and future improvement.

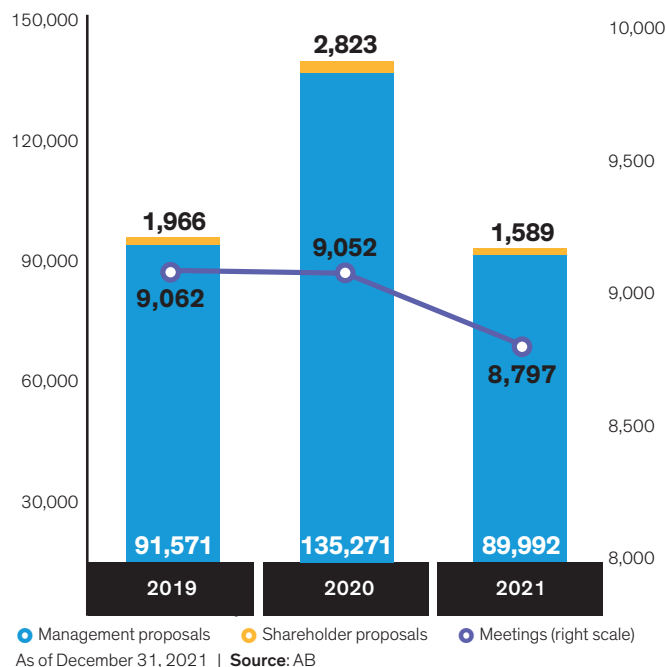
Interestingly, issuers with the lowest risk often lag on adopting best practices—for example, telecommunications or healthcare. Meanwhile, issuers with the highest risk are typically further along—consumer discretionary or consumer staples, for instance.

As investors, engaging on these issues can give us even greater access to management teams and better insight into companies' supply-chain management or cultures. During engagements on modern slavery issues, we often speak with people in different functions, including sustainability and procurement roles, giving us a more holistic view. It's encouraging to us that most companies wish to join us in the fight for positive change.

Through active engagement and by communicating our expectations of companies, we strive to help victims and generate long-term sustainable performance.

For more on our approach to modern slavery risk, read our white paper [*Modern Slavery Risk: The Investor's View*](#).

GLOBAL PROXY VOTING: MEETINGS AND PROPOSALS



Centers of Excellence: Proxy Voting and Corporate Governance

We believe that voting is critical to long-term investment stewardship. This philosophy informs our approach to proxy voting and corporate governance, which is underpinned by our robust policy, procedures and oversight. Our [Proxy Voting and Governance Policy](#) is our public statement of proxy voting procedures and our policies on key issues. Our Responsibility team votes our proxies globally, actively gathering and incorporating input from our investment teams. Our Proxy Voting and Governance Committee provides formal oversight of the entire process.

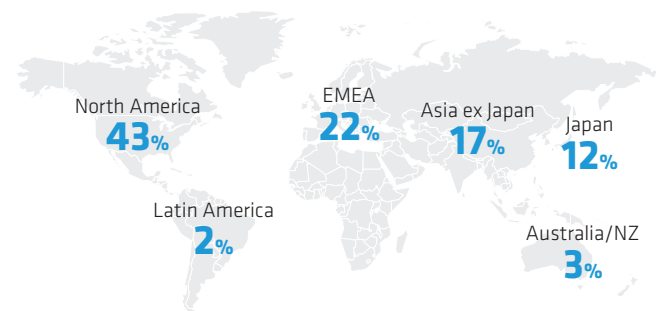
We don't automatically support all ESG shareholder proposals. Instead, we evaluate whether each proposal promotes genuine improvement on material ESG issues, with a focus on enhancing shareholder value. We take this thorough approach because we believe that it leads to the most thoughtful application of our voting principles and the best stewardship application of our research and engagement insights.

Highlights of our approach include:

- **Multi-class equity structures**—We generally vote against these structures because we support the one-share-one-vote principle stating that voting power should be proportional to an investor's economic ownership. While we acknowledge that multi-class structures may be beneficial for a short period, we recommend that companies adopt a sunset provision to be triggered no later than seven years after the initial public offering.
- **Board diversity**—Diversity is an important element of assessing a Board's quality, because it promotes the consideration of a wider range of perspectives when companies strategize and work to mitigate risks. We believe that diversity is broader than gender alone—it should also include business experience, ethnicity, tenure and nationality. We will generally vote against the relevant committee chair or incumbent member when the board has no female members. In Japan, we will vote against top management. In 2022, we will begin voting against the relevant committee chair or incumbent member of companies that lack minority ethnic/racial representation on their Boards.

In 2021, we voted 91,581 proposals across 8,797 companies globally, voting 99% of the company meetings eligible.

A GLOBAL EFFORT: WHERE WE VOTED IN 2021*



* Based on 8,797 total shareholder meetings in 2021. Percentages may not sum to 100% due to rounding.

As of December 31, 2021 | Source: AB

Bernstein: ESG in Sell-Side Research

At Bernstein Research, AB's sell-side brokerage business, we are deeply committed to integrating ESG considerations throughout our equity research globally. ESG has long been a part of our research DNA. Bernstein's senior analysts, with decades of industry experience, are uniquely positioned to identify and analyze material ESG considerations. We started writing about ESG issues in the 2010s and published our first cross-sector ESG Blackbook in 2018.

As ESG considerations were already an integral part of our research process, we decided to move beyond scores and ratings and take an integrated approach to incorporate material ESG into our fundamental research. This gave rise to the Bernstein's Materiality, Analysis and Quantification (MAQ) Framework, which guides our analysts in identifying industry-specific material ESG issues, analyzing them and, ultimately, quantifying them within their financial models and valuations. A key milestone has been the publication of an ESG materiality matrix by every sector analyst, ensuring consistent bottom-up ESG integration across all sectors.

In February 2021, we launched a dedicated Global ESG research franchise to complement our existing bottom-up integrated approach with top-down thematic and strategy perspectives. Our research to date has included deep dives on topics ranging from electric-vehicle battery lifecycle assessment, to data privacy, to the future of food.

Meanwhile, from a strategic perspective, we've analyzed why ESG improvers are becoming a new source of alpha, assessed the effectiveness of ESG divestment and engagement, and deciphered the ESG regulatory alphabet soup.

We expect to build on our existing work in 2022 and plan to launch a two-part ESG thematic series. The first part is titled *ESG Best Ideas in an Inflationary Environment*, and the second, *Letters to the CSO*, will feature letters we have written to Chief Sustainability Officers to advocate for better ESG performance while helping investors identify key ESG issues and facilitate engagement conversations.



ESG Blackbook,
November 2018



*The Bernstein ESG Materiality
Matrix* Greenbook,
September 2020



Global ESG Research Franchise,
February 2021



*ESG in Action 2021: Improvers and
Enablers* Blackbook,
June 2021

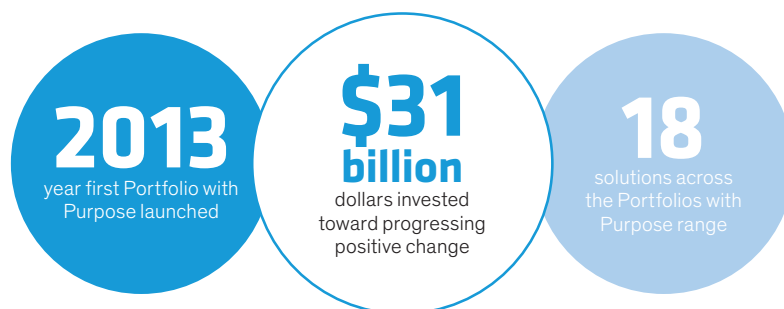


*Ten Shades of Green—An ESG
Thematic Primer* Blackbook,
December 2021



*ESG "Materiality, Analysis,
and Quantification": Measuring the
Unmeasured* Greenbook,
February 2022

Portfolios with Purpose: The Right Mindset for Responsible Returns






As of December 31, 2021

Responsible investing is a personal journey. Clients may have different environmental and social priorities, and preferences for different investment approaches. AB considers ESG risks and opportunities in most of its actively managed strategies, but some investors want a more focused approach.

To try to meet this need, we offer a variety of solutions in our rapidly growing responsible investing platform: our Portfolios with Purpose. This platform offers investors a diverse range of solutions that go beyond ESG integration and engagement to invest with an explicit ESG agenda.

These actively managed portfolios combine a clearly articulated purpose with ESG analysis and engagement by company experts—who have deep fundamental expertise in sectors and industries—with input from responsible investing specialists. This approach tries to ensure that a portfolio's societal purpose and financial goals are aligned in an attempt to make a lasting difference on our world. And at the heart of AB's Portfolio with Purpose is an underlying belief that with the right mindset, responsible investing choices can drive compelling long-term investment returns.

Investors can choose from a range of strategies across a variety of asset classes, with diverse sector exposures and performance patterns that are suitable for different market environments. These solutions include our Responsible+ portfolios, Sustainable portfolios and Impact portfolios.

	Objective	AB's Approach
Responsible+ 	Build on ESG integration to achieve additional responsibility objectives, such as climate resilience, ESG improvement or best-in-class allocations	Solutions fall into three subcategories: <ul style="list-style-type: none"> • Climate Conscious portfolios target low-carbon issuers, or those exhibiting climate resilience, or green-technology innovators • ESG Leaders allocate to issuers that follow best-in-class practices regarding material ESG issues • Change Catalysts consider issuers that are improving on certain ESG issues or enabling others to improve through active ownership
Sustainable 	Identify environmental or social challenges and invest in issuers that provide products or services to tackle them	We use a proprietary top-down methodology based on the United Nations Sustainable Development Goals (UN SDGs) as a framework to identify opportunities relating to certain investable themes: climate, health and empowerment, as well as strong institutions for sovereigns. This methodology is combined with bottom-up fundamental research that assesses corporate, sovereign and securitized issuers' ESG credentials
Impact 	Invest in issuers that might provide a positive and measurable impact on society or the environment	Every investment has a specific intention of benefiting underserved communities or reducing societal disparities between the wealthiest and poorest members of society

Portfolios with Purpose: Spotlight on Responsible+

AB's Global Low Carbon Portfolio is one of our Responsible+ Portfolios with Purpose. It invests in companies that we believe exhibit climate resilience or facilitate the transition to a low-carbon economy. The investment process uses a company's current carbon exposure, transition pathway and exposure to green revenues to assess risk, striving to deliver strong risk-adjusted returns. The Portfolio seeks to invest in companies that consider climate change in their business strategies and are therefore likely better prepared for the transition.



Our Sustainable Framework: Spotlight on Sustainability

UN SDGs: A Road Map for Investors

In recent years, severe weather damage, the global pandemic, and political, economic and social unrest have made ESG issues more tangible, fueling a global movement around taking responsibility for addressing these challenges.

Sustainable development involves finding solutions to these critical challenges. Directing capital to businesses providing solutions to these issues can provide investors with exposure to fast-growing industries, which may help to preserve and ultimately increase their wealth.

The UN established the SDGs as a powerful framework of 17 goals to help countries address the challenges of economic prosperity, environmental sustainability and social inclusion. They represent an aspirational view of what the world can look like by 2030. We believe that the UN SDGs can help investors connect the world's crises with actionable investment themes, serving as a road map for translating sustainability issues into investible opportunities.

Based on this mindset, we've developed a practical framework focused on four themes: Climate, Health and Empowerment, as well as Strong Institutions for sovereigns.

Sustainable Portfolios:

Sustainable Themes for Investment Consideration

Climate

Efforts to stem climate change are gaining momentum around the world. Many consumers, business and policymakers are recognizing the need for change.

- Cleaner Energy
- Resource Efficiency
- Sanitation and Recycling
- Sustainable Transportation

Health

Healthcare spending is rising, and people are living longer, which raises complex issues for access to high-quality and affordable medicine and long-term care.

- Access to Quality Care
- Food Security and Clean Water
- Medical Innovation
- Well-Being

Empowerment

Many sectors of society are marginalized by economic and social forces. Physical and technological infrastructure is needed to enable sustainable economic development, employment growth, poverty eradication and social inclusion.

- Education and Employment Services
- Financial Security and Inclusion
- Information and Communication Technologies
- Sustainable Infrastructure

Strong Institutions

Responsible sovereigns provide the foundation for the private sector to innovate and for effective and accountable public policymaking.

- Freedom and Fundamental Rights
- Anti-corruption and Government
- Law and Order

These themes—which are likely to enjoy strong growth potential, even in challenging macroeconomic conditions—are a starting point for discovering specific opportunities.

We then target companies providing the products and services that address these themes. Mapping the products and services that companies provide to the UN SDGs allows us to understand whether those businesses are truly sustainable and whether we want exposure to them within our sustainable portfolio. For example, within the climate theme, one subtarget calls for increasing the percentage of renewables in the global energy mix. Aligned product opportunities might include batteries, solar panels and wind turbines.

Under our SDG-aligned framework, we also include issuers that serve as a meaningful catalyst or steward for the UN SDGs, such as sovereign issuers. For example, to promote climate action, good stewards should be signatories of the Paris Climate Agreement.

We recognize that there are some sectors that deeply inhibit the achievement of the UN SDGs, so we exclude companies that have involvement in those industries; only positively aligned issuers make up our investment universe.

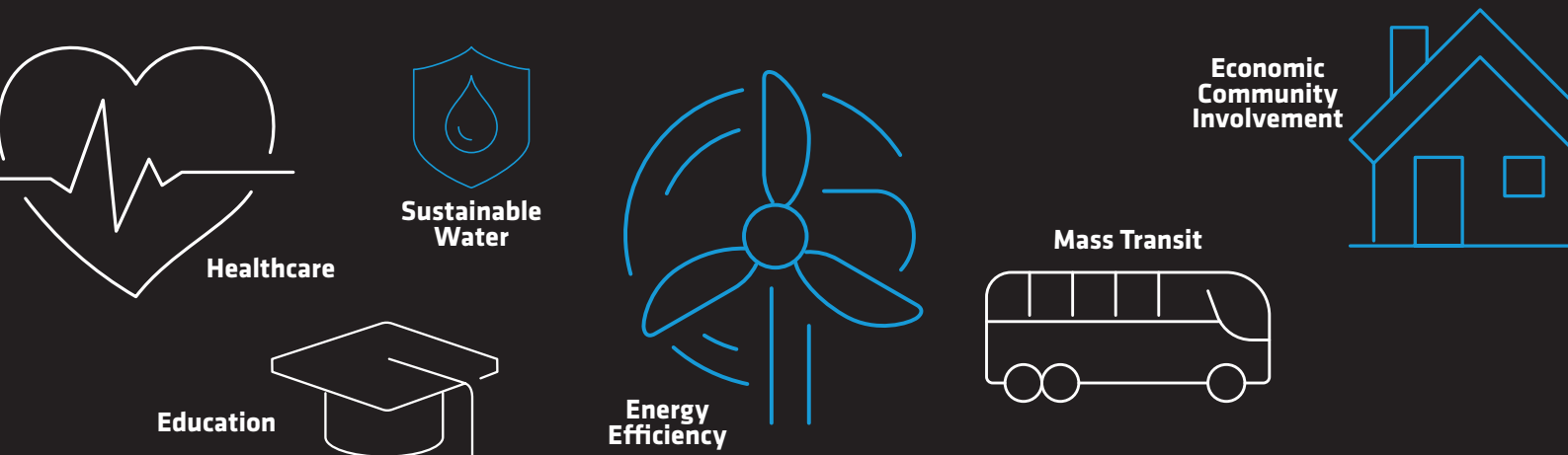
This process gives us a large and well-diversified universe, with issuers in every sector and geographic region.

Once the SDG-aligned investment universe is constructed, our Sustainable Thematic portfolios use bottom-up analysis to determine individual issuers' ESG credentials from an operational perspective and incorporate these into their investment processes. Through in-depth research, we believe it's possible to assemble a portfolio of quality businesses that are helping make the world a better place—in addition to providing differentiated opportunities for sustainable growth.

Making and Measuring Impact

Impact investing seeks to make a direct—and measurable—social or environmental impact while generating a financial return. Our Impact portfolios strive to invest in issuers providing a positive and measurable impact on society or the environment. For example, some investments have a specific benefit of serving underserved communities or reducing societal disparities—such as access to education, healthcare services or clean water—between the wealthiest and poorest members of society.

AB's Municipal Impact Strategy invests in the US municipal bond market, seeking initiatives directed at historically marginalized communities throughout the US. Each one of the municipal bond investments has a specific intention of reducing societal disparity.



The opportunities to fund positive change are deep and broad within state and local governments, but real municipal impact tends to make the biggest difference at a grassroots level. Every community has a different set of needs and its own tailored key performance indicators (KPIs). For example, healthcare is an area where municipal finance can bridge gaps. A growing initiative by major healthcare facilities and hospitals is taking measurable steps to reduce the life-expectancy disparity between high- and low-income neighborhoods. By supporting institutions in these efforts, municipal impact investors can help achieve health equality in historically under-resourced communities.

Measuring Impact in Our Sustainable Range

Calix

Calix, a provider of cloud and software platforms as well as systems and services, offers products and services that enable communication service providers (CSPs) to deliver a wide range of digital services. The company's network architecture platforms and analytical tools help CSPs make informed decisions on network expansion to deploy new services around the world.

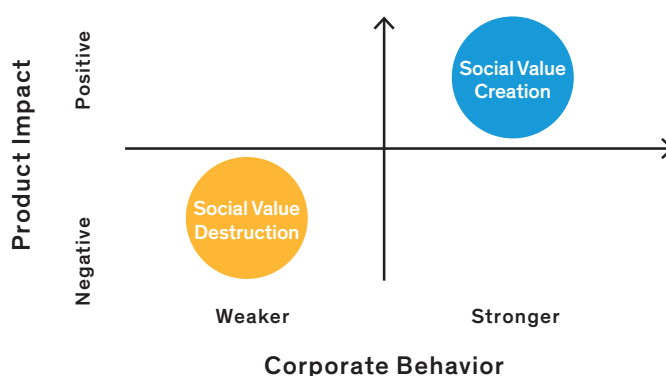
As the global population swells, the world faces a growing need to build out global internet infrastructure to facilitate e-commerce, education and access to remote healthcare. Calix's network access equipment helps connect customers to high-speed internet while lowering the operating costs for CSPs. For example, the company is highly exposed to smaller internet providers in rural America, with over 80% of its revenue derived from customers with fewer than 250K broadband subscribers. Calix is directly enabling robust internet access for these underserved areas.

The views expressed herein do not constitute research, investment advice or trade recommendations, do not necessarily represent the views of all AB portfolio-management teams, and are subject to revision over time.

Measuring Impact

Although the real-world impact of investments in stock and bonds in the secondary market is highly debated (as it is difficult to show how money invested results in a specific environmental or social impact) we believe that it is possible to form an assessment of the societal value—and the related environmental or social impact—that individual issuers generate. We call this “enterprise impact.” Companies affect society through the products they sell and their own operations. Firms may sell products that help or hurt society, like vaccines or tobacco, respectively. Their behavior can be positive or negative, like equal pay policies or bribery, respectively.

MEASURING ENTERPRISE IMPACT



Engagement Impact

We also believe that we can generate impact through our active ownership and engagement strategy.

Investing in a sustainable company's stock won't lead to change on its own, but shareholders enjoy a seat at the table with management—which provides many routes to encouraging meaningful change in corporate behavior. To us, engagement is about forming a productive partnership with management aimed at making meaningful progress on key issues. We believe that playing an active role to promote positive change can help businesses deliver better results and supports long-term return potential.

Focus on Fixed Income: ESG-Labeled Bonds

ESG bonds—including both “use of proceeds” (such as green, social and sustainability bonds) and “target-based” bonds (such as Sustainability-Linked Bonds)—continue to increase in issuance. This is a welcome development in our view, as such financing will play a critical role in the global transition to a greener world. But not all ESG-labeled bonds are created equal; it’s essential to have a disciplined framework to evaluate these structures.

Green bonds are still the biggest class of ESG-linked finance, with more than \$1 trillion outstanding, according to the Climate Bonds Initiative. Proceeds for each issue are meant to finance a green project (or range of projects) with an environmentally beneficial purpose and in line with a specified framework and timeline. This structure is especially suitable for investors seeking a clear link between capital investment and improving the environment.

Social bonds work the same way as green bonds but finance socially impactful projects. Examples include new buildings for communal benefit, educational programs for an underprivileged demographic and more hospital beds for low-income areas.

Fostering a more sustainable world requires broad improvements in business behavior. Enter the **sustainability-linked bond**, a recent innovation offering a target-based structure that incorporates KPIs. Its goal is to achieve higher ESG standards across a company, rather than to finance a specific project. If the bond issuer fails to hit specified targets as measured by the KPIs, investors are compensated by receiving a higher interest payment under the bond's terms.

We have built a proprietary methodology that helps us assess ESG-labeled bonds and identify their societal impact. When assessing ESG-labeled bonds, we examine an issuer’s ESG framework to understand:

Materiality

Is the use of proceeds for a green bond significant to the issuer’s business and industry? Does the KPI target for a sustainability-linked bond represent a material improvement for the entire firm?

Commitment

Does the issuer have an ESG bond framework and basic firmwide ESG commitments? Is the issuer committed to transitioning a meaningful part of its capital structure to ESG bonds?

Ambition

Does the sustainability-linked structure have ambitious objectives? Are KPIs specific? How do the terms compare to best practices among industry peers?

Timeline

Does the coupon step-up compensate for KPI misses? Will we receive enough enhanced coupon payments before the KPI timeline expires?

Suzano

Suzano, the largest global pulp manufacturer, is often associated with negative headlines on Brazilian deforestation and other ESG issues, despite having best-in-class sustainability metrics, in our view. We've engaged with Suzano in recent years to encourage the company to highlight its remarkable environmental credentials more publicly, rebut negative press around deforestation and use creative financing structures to lower its cost of capital.

Suzano emits dramatically less carbon dioxide per ton of pulp and paper produced than its peers do. After we engaged with the CFO and advocated for the company to issue a bond tied to its superior environmental track record, Suzano issued the first sustainability-linked bond in emerging markets in 2020. The company's long-term goal is to reduce its carbon intensity by 15% by 2030, with an interim sustainability performance target set in 2025. If the company fails to meet its KPIs, it will experience a 25-basis-point coupon step-up in 2025. We believe that these targets put Suzano well below a two-degree warming scenario. Importantly, the company also supports the TCFD and follows the guidelines of the Global Reporting Initiative. We'll continue to push Suzano to set ambitious goals and consider further sustainability-linked bonds.

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Context: The AB Blog on Investing

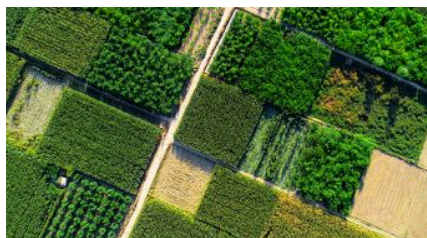
To learn more about our views on critical ESG issues and responsible investing, check out our blog, [Context](#).



Impact Investing: Addressing Local Needs with Precision and Purpose

Dec 6th, 2021 / 4 min read
Marc Uy, Larry Bellinger, Matthew Norton, Erin Bigley

Look to municipal impact investing for opportunities to fund positive change—close to home.



Making ESG Second Nature in Asset Allocation

Nov 18th, 2021 / 7 min read
Sara Rosner

ESG is increasingly fundamental to investing, and multi-asset investors face an added ESG dimension: strategic asset allocation.



Making Sense of ESG Bond Structures

May 18th, 2021 / 5 min read
Salima Lamdouar, Tiffanie Wong

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Mar 23rd, 2021 / 5 min read
David Tsoupros

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A Final Word from Our Chair



Joan Lamm-Tennant
AB Chair, Board of Directors

AB prides itself in its deep commitment to corporate responsibility and responsible investing.

Responsible corporations should center their businesses around environmental, social and governance issues and strive to address those issues, all while fulfilling their core mandates. This is exactly what AB endeavors to do.

The year 2021 was a strong one for Responsibility at AB. The firm grew its Responsibility team, advanced its corporate responsibility practices, worked to more fully integrate ESG into investment decision-making processes for most of its actively managed strategies-making processes, and conducted deeper engagements with issuers and ESG policymakers. These efforts have been recognized by clients and other organizations, as evidenced by the growth in AB's Portfolios with Purpose platform and external awards and accolades.

However, while AB has made great progress, there is still more to do. In the coming months and years, AB will continue to focus on its purpose and values, centered on embedding them throughout the organization. Within responsible investing, AB will conduct detailed research on topics ranging from deforestation to cybersecurity, embed that research within investment processes, and educate clients through conferences, thought leadership and webinars.

AB will continue to expand its ESG integration practices to additional strategies and work to improve the quantity, quality and ease of access to ESG data among investment teams. Leveraging this expertise, AB hopes to offer new and differentiated Portfolios with Purpose.

AB is invested in being a leader in corporate responsibility and responsible investing. This commitment is embedded throughout the firm and starts from the top, with oversight from the Board. I am proud of the great work AB is doing.

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